

**CITY OF  
LYNCHBURG, VIRGINIA**

**Comprehensive Annual Financial Report  
For the fiscal year ended June 30, 2005**



# MONUMENT TERRACE GRAND STAIRCASE

Lynchburg, Virginia

# **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

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*FISCAL YEAR ENDED JUNE 30, 2005*

**CITY OF LYNCHBURG,  
VIRGINIA**

Prepared by:  
Financial Services

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## **INTRODUCTORY SECTION**



FINANCIAL SERVICES DEPARTMENT

September 22, 2005

The Honorable Mayor and Members of the City Council  
City of Lynchburg, Virginia

The Comprehensive Annual Financial Report (CAFR) for the City of Lynchburg, Virginia, (City) for the year ended June 30, 2005, is hereby submitted in accordance with the *City Code* and state statutes. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position, results of operations, and cash flows, as applicable, of the various funds and component units of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The CAFR is presented in four sections: Introductory, Financial, Statistical, and Compliance. The Introductory Section, which is unaudited, includes this Letter of Transmittal, the City's organization chart, and a list of principal officials. The Financial Section includes: Management's Discussion and Analysis (MD&A); basic financial statements consisting of government-wide and fund financial statements; and the combining and individual fund financial statements and schedules. The Statistical Section, which is unaudited, includes selected financial and demographic information generally presented on a multi-year basis. The Compliance Section includes the auditor's reports on compliance and testing of internal controls in conformity with Generally Accepted Auditing Standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and requirements of the Auditor of Public Accounts of the Commonwealth of Virginia.

The financial reporting entity includes all funds of the primary government (i.e., the City of Lynchburg), as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. The City provides a full range of municipal services including general administration, judicial functions, police and fire protection, parks and recreation, libraries, museums, health, juvenile and social services, maintenance of streets and highways, economic development, and community planning. The City also owns and operates water and sewer systems, a municipal landfill, and a regional airport. The City's discretely presented component units, Lynchburg City Schools (Schools), Business Development Centre, Inc., and Greater Lynchburg Transit Company, provide public education, various small business services, and public transportation, respectively, to the citizens of the City. These component units are included in separate columns in the City's government-wide financial statements to emphasize that they are legally separate from the City and to differentiate their financial position and results of operations from that of the City. Each of these component units' governing bodies is appointed by City Council. Excluded are the financial statements of the Lynchburg Redevelopment and Housing Authority and the Industrial Development Authority of the City of Lynchburg. These organizations are associated with the City, but are legally separate entities, which operate with considerable autonomy outside the direct control of City Council and for which the City is not financially accountable. Also excluded are the financial statements of the Blue Ridge Regional Jail



Authority and the Central Virginia Community Services Board, which are jointly governed organizations. Additional information regarding the City's financial status can be found in the MD&A section of the CAFR.

## **Local Economic Condition and Outlook**

Approximately 120 miles west of the state capital and midway between the cities of New York and Atlanta, Lynchburg is an important commercial center for a four-county region. The City benefits from an economy that has been relatively stable and remains diversified among the manufacturing, service, technology, and trade sectors.

City Council and City management support an aggressive economic development program that is committed to creating jobs for area citizens and generating new sources of tax revenue by strengthening and diversifying the local economy through the attraction of new businesses and the retention and expansion of existing businesses. This commitment, the strategic location of the City, a strong workforce, a moderate climate, and desirable available real property make Lynchburg an attractive location for an ever-increasing mix of business.

The City, through its Industrial Development Authority (IDA), has a program of local economic development incentives designed to enhance the City's competitiveness for new industry and business and to support the expansion of existing core employers. The performance-based incentives provide for, but are not limited to, consideration of site cost reduction, site preparation costs, cash grants/investments, and the potential for water, sewer, and solid waste contracts for large volume users. New and existing businesses must satisfy certain criteria for amounts of incremental investment and/or increased full-time job equivalents to be entitled to locally funded incentives. The program is designed also to provide matching funds to state incentives. Since inception of the program in 1994 and through June 30, 2005, a total of \$11,862,589 in local economic development incentives has been awarded. The City also owns and manages two industrial parks. The Lynchburg Center for Industry is approximately 92% occupied with 170 total acres, 13 acres remaining for development, and the Lynchpin Industrial Center is approximately 42% occupied with 649 total acres, 396 acres remaining for development. Additionally, the City, in partnership with Campbell County, is developing an Airport Commerce Park with 252 total acres adjacent to Lynchburg Regional Airport.

The City also provides support to the Business Development Centre, Inc., which was established to help small start-up businesses with one-stop support services. The Centre provides counseling, advising and training services as well as incubator office or industrial space at the facility. Loan programs administered by the Centre are available to finance eligible small businesses as well.

The City understands the importance of creating an environment that is business friendly and is working hard to improve services to the business community in new and innovative ways. In March 2002, Lynchburg City Council approved a Technology Zone Ordinance. The Commonwealth of Virginia allows cities, counties, and towns to establish, by ordinance, one or more technology zones to attract growth in targeted industries. Qualified businesses locating or expanding in such a zone may receive waivers of local permit and user fees, local tax incentives, and capital investment grants. Incentives may be provided for up to ten years. The City established two technology zones: Downtown and in the Lynchpin Industrial Center. The City continues to market to new businesses, particularly Downtown and in the industrial parks, which are designated as both Enterprise Zones and Technology Zones. Numerous business owners have taken advantage of the benefits of these zones, some of whom indicated that they would not have located in Lynchburg if not for these zones.

Retail development continues to expand in the Route 29 (Wards Road) corridor, which remains the regional retail hub serving Lynchburg and the four surrounding counties. Target, Best Buy, Wal-Mart, and Sam's Club continue to be the anchor stores in the corridor, driving the addition of

approximately five new retailers annually, including national chain stores and restaurants. On the western edge of the City, a new Home Depot is under construction.

In recognition of the shared commitment and belief that economic growth in any of the region's communities benefits the entire region, business, government, and community leaders of the City and surrounding jurisdictions continue to participate in regional economic development activities. During FY 2003, in an effort to reduce redundancy and present a more united front, two regional groups, Virginia's Region 2000 and the Region 2000 Partnership, were merged into a single entity, the Region 2000 Economic Development Partnership, which will receive administrative support from the Region 2000 Regional Commission. The region's Workforce Investment Board (WIB), which focuses on skills training and workforce development, operates under a similar arrangement bringing all regional economic development activities under one umbrella organization. Supported through voluntary contributions from participating businesses, organizations, and jurisdictions that contribute on a per capita basis, the Region 2000 Economic Development Partnership will continue to combine public and private sector interests to support an ongoing local, state, national, and international economic development program in central Virginia.

The City experienced limited growth in the industrial, commercial, technology, and retail sectors during FY 2005. The Office of Economic Development assisted with a total private investment of \$17 million involving the creation of over 250 new jobs; incentives to these projects totaled \$469,477. A summary of major economic additions and expansions follows:

- Best Mailing Services purchased a building in Lynchburg Center for Industry from the Lynchburg Industrial Development Authority (LIDA) for \$2 million, bringing 65 existing and 15 new jobs to the City.
- Boxley Block is constructing a new \$10 million automated facility in Lynchpin Industrial Center on 19.7 acres using a \$200,000 cash incentive from the LIDA.
- RiversEdge Furniture Company is expanding their existing facility in Lynchpin Industrial Center approximately 114,000 sq. ft. at an estimated cost of \$3 million, using a \$60,000 cash incentive from the LIDA, creating 25 new jobs.
- Lynchburg was awarded \$349,000 by the Commonwealth Transportation Board from Industrial Access Funds toward the construction of Lynchpin Lane to open new sites in Lynchpin Industrial Center.
- CDG Management opened an outbound call center in downtown Lynchburg at an LIDA owned facility creating 200 new jobs and making a \$1 million investment.
- Automated Industrial Technologies will construct new offices and a plant in Lynchpin Industrial Center at an estimated cost of \$1 million, bringing 15 existing and 11 new jobs to the City.

Lynchburg has effectively dealt with many of the challenges that face economies historically focused on manufacturing while maintaining its role as an employment and commercial center for a four-county metropolitan area that has a population of about 236,000. In addition to a number of manufacturing and retail firms, the city also contains a major medical center and several colleges, all of which serve the surrounding counties.

## **Major Initiatives and Accomplishments**

### **Comprehensive Plan**

In September 2002, City Council approved a new Comprehensive Plan. Virginia law requires that each city, town, and county have a Comprehensive Plan and that it be reviewed at least every five years. As adopted, the Plan provides the City with a framework for consistent decision-making in the areas of land use, public facilities and utilities, resource protection, housing, transportation, economic

development, and capital improvements. The City's Planning Commission is responsible for implementing the Plan and City Council is the adopting authority. The vision, goals, and objectives included in the Plan are being used to guide the implementation of the Plan, beginning with strategies included in the five-year Implementation Program. This Program includes revisions to the City's zoning ordinance and subdivision ordinance. At the same time, neighborhood conservation plans, a transportation master plan, corridor studies, resource conservation plans, and revitalization area plans are being prepared and adopted as part of the Comprehensive Plan. City Council adopted the Tyreeanna/Pleasant Valley Neighborhood Plan, which will be one of the first projects completed under the new Plan. Portions of the City's Zoning Ordinance have been revised and work is underway preparing a plan for the Fifth Street corridor and Midtown Area. The City has worked on the development of a regional greenways and blueways plan that will incorporate the City's greenways into the regional system.

### Downtown and Riverfront Development/Redevelopment

The City continued into its fourth year of implementing elements of the Downtown/Riverfront Master Plan adopted in March 2001. Sasaki & Associates and Economics Research Associates developed the twenty-year plan encompassing a sixty-block area. Implementation continues to focus on four areas: infrastructure/public space improvements, culture and entertainment, commercial development, and government projects.

Phase One of the infrastructure improvements was completed during FY 2005 and included streetscape improvements for the Ninth Street Corridor (the major north-south avenue through downtown) and adjoining side streets. The improvements consisted of new stone and brick sidewalks, street trees, historic lampposts, benches, and other amenities. The Ninth Street corridor improvements also included a major Combined Sewer Overflow (CSO) project. Four blocks and the famous Monument Terrace Grand Staircase were completed during FY 2005. Phase One of the Riverfront public space improvements is complete and includes initial components of the Riverfront Park. These improvements include the transformation of a former railroad yard to a large lawn for festivals and light sports, complimented by street trees, and the Jefferson Street promenade. The goal of the infrastructure/public space improvements is to attract more activity and private development in the downtown area. The public investment for the projects totals nearly \$6 million. Phase Two of the Riverfront public space improvements began in early 2005 with completion expected within one year.

The first cultural project to open downtown was the Amazeement Square Children's Museum in March 2001. The museum has attracted nearly 100,000 visitors annually, well above projections of only 30,000 visitors per year. The museum continues to be a popular destination for families throughout the Commonwealth and has boosted sales at local shops, restaurants, and hotels. A second cultural project that opened two years ago is the Renaissance Theater. The repertory theater continues to host sell-out crowds for a variety of dramas and musicals. The third cultural project to open recently in downtown is the Dance Theatre of Lynchburg. The studio offers a variety of dance classes for all ages and levels, and holds performances throughout the year, providing community youth the opportunity to gain first hand performing arts experience. A fourth cultural project is Riverviews Artspace, a combination of an artist center (galleries and studios), retail space (café, antique stores, and art supply store), and housing (36 loft apartments). The project was completed in October 2003, is fully rented, and is the first major market-rate housing project in the downtown in over thirty years. Housing is a critical component of the Master Plan in that downtown residents add twenty-four hour a day/seven day a week life to the streets and increase demand for retail and entertainment. A fifth cultural project is the Academy of Fine Arts. Phase One of the Academy opened in December 2004. This \$5 million project includes a new 500-seat studio theater, classrooms, offices, and galleries to serve the cultural arts for Lynchburg, the surrounding region, and the Commonwealth. Phase Two, which includes restoration of the historic Academy of Music Theater (c. 1905), is expected to begin in the next year, pending fund raising results. The theater will seat 900 guests and is estimated to cost \$15-20 million. The recent merger of the two largest arts and cultural

organizations in the City, the Fine Arts Center and the Academy of Music, into the Academy of Fine Arts helped expedite the completion and opening of Phase One and will promote the fundraising efforts for Phase Two. The Academy of Fine Arts is a key component of Downtown revitalization efforts. Complimenting the Downtown revitalization efforts is the RiverWalk. The RiverWalk is one of the most popular sections of the James River Heritage Trail. People of all ages and abilities are able to enjoy this 3.5 mile paved trail. This lovely, level path begins downtown on Jefferson Street, just past the eastern end of the Blackwater Creek Bikeway/Trail system and the Point of Honor Trail, and moves eastward along the waterfront (passing Amazement Square and Riverfront Park), and crosses onto Percival's Island before continuing into Amherst County. Recreational opportunities along this section of the James River Heritage Trail are diverse and include walking, biking, jogging, fishing, and expansive riverfront views. Further enhancing the RiverWalk was the completion of the Point of Honor pedestrian bridge during FY 2005 which linked the Daniels Hill historic area to the Blackwater Creek trail system.

Private developments include new and expanded restaurants, stores, and offices. In addition, a new lodging, dining, and meeting facility, the BluffWalk Center, began construction in 2003. It will include a boutique hotel with forty-three guestrooms, a conference center, a high-end restaurant, a casual restaurant and a microbrewery in two renovated former shoe factory buildings. Completion is expected by the end of calendar 2006. Several new loft apartment housing projects will begin construction in FY 2006. One project will include thirty units and another will include sixty-seven units plus retail. The latter is located adjacent to the City's Community Market, which will further enhance the historic market and add more "critical mass" in specialized retail for downtown (i.e., crafts and antiques).

Also located downtown, the \$2 million restoration of the City's Old Courthouse Museum was completed in early FY 2005. This project is being managed through a limited partnership to allow the use of historic tax credits to offset a portion of the cost. A new \$14 million federal courthouse and post office complex was completed in FY 2005. The complex will employ 75 to 100 people in the post office, the courts, and other federal departments such as the U. S. Marshall Service, the Federal Bureau of Investigations (FBI), and the Internal Revenue Service (IRS).

#### Combined Sewer Overflow (CSO)

In August 1994 the Virginia Department of Environmental Quality (DEQ) issued the City a discharge permit and a special consent order which established a compliance schedule and project priorities for implementation of a CSO Control Plan. The compliance schedule does not contain fixed dates for implementing the CSO Control Plan, but rather provides for implementation that reflects the City's financial capability. Since July 1, 1993, through June 30, 2005, the City has appropriated over \$111 million for CSO control and abatement projects. This funding has resulted in the closing of 96 of the 132 CSO outfalls with a 77% reduction of CSO volume. During FY 2005, capital expenditures for CSO were approximately \$9.2 million and, although no additional CSO outfalls were eliminated, projects completed in FY 2005 continued to reduce overall CSO volumes.

The City's CSO Control Plan was updated in 2000 and sewer separation continues to be the long-term approach to the City's CSO concerns. The total estimated cost of the CSO Control Plan in 2005 was \$384 million with \$284 million in direct CSO abatement costs. In conjunction with the CSO abatement program, optional projects include replacement of water system infrastructure at a cost of \$25 million and street and road improvements in those areas of the City where CSO projects are being undertaken at a cost of \$52 million. The City faces continued challenges in its sewer operations. Possible regulatory mandates for nutrient removal at the wastewater treatment plant and major interceptor sewer replacements could impact future sewer rates to fund debt. Remaining sewer infrastructure continues to age, further burdening the fund's future. The City continues to lobby for matching federal grants but their availability and amount grow smaller each year.

## Education

Educational achievements include Virginia Department of Education notification that fifteen of the sixteen City schools were fully accredited. Ten of the eleven elementary schools, one of three middle schools, and both high schools met the 100% Adequate Yearly Progress (AYP) requirements for school accountability under the No Child Left Behind Act of 2001. Students in the graduating class of 2005 exceeded both the state and national average on the Scholastic Aptitude Tests (SATs). Nearly fifty percent (50%) of the 2005 graduating class earned the state advanced diploma, the criteria for which are set by the Virginia Department of Education. The May 16, 2005 issue of *Newsweek* magazine included both City high schools in its Top 1000 High Schools. From the over 27,468 public high schools in the United States, E.C. Glass High School was ranked 412 and Heritage High School was ranked 615.

## Infrastructure

In addition to the infrastructure projects outlined in the Downtown and Riverfront Development/Redevelopment section of this letter, the City continues to focus on major infrastructure projects.

The renovation and expansion of the City's oldest high school, E. C. Glass, began during the summer of 2003. Fourteen science classrooms and an auxiliary gym were added during FY 2004. An extensive renovation of the existing building includes electrical and plumbing upgrades, new HVAC systems, new windows, installation of elevators, and classroom renovations. A limited partnership was formed to utilize state historic tax credits as part of an overall \$28.7 million financing plan. Construction is expected to be complete by April 2006.

During FY 2005 a \$1.5 million renovation to the Cranehill Drive Bridge was completed. This project repaired the bridge deck along with adding another traffic lane to improve traffic flow and safety. Also, during FY 2005 six sky boxes were added to the existing eight at the Lynchburg Baseball Stadium. Five of the sky boxes were paid for by the lessees with the remaining one financed with pay-as-you-go capital funds.

In another initiative, asphalt paving was removed from Jefferson Street, along the riverfront, and the Belgium Blocks and granite pavers original to this street were cleaned, replaced, and left exposed. In a similar project, a grant was awarded to the City to support a \$500,000, multi-year historical preservation initiative in the Daniels Hill area to remove asphalt paving, to restore the original stone curbs and brick pavers, and to replace the street lighting fixtures with new units of an historical design with up-to-date illumination capability.

During FY 2005, the City continued to make major improvements to its water and wastewater systems. Major improvements to the water system included: (1) a major upgrade to the Abert Filtration Plant incorporating renovations of the filters and controls, (2) rehabilitation of the five million gallon, Mill Lane water storage tank, (3) rehabilitation of two coagulation tanks at the College Hill Filtration Plant, and (4) installation of a standby generator at the Carroll Avenue Pump Station. During FY 2005 the primary improvements to the wastewater system have been related to the CSO Program. Other notable improvements include: (1) cleaning and inspection of the James River Interceptor, (2) a redesign of the lower James River Interceptor, (3) a preliminary engineering study of the upper James River Interceptor, and (4) improvements to the chlorine system at the wastewater treatment plant. The James River Interceptor is the major interceptor taking wastewater generated throughout the City to the wastewater treatment plant and is approximately 50 years old.

## Information Technology

The use of technology to improve customer service and operational efficiency continued to be a priority across all City departments. The City was recognized in FY 2005 as one of the “most technology-advanced cities in America” by the Center for Digital Government based on its FY 2005 Digital Cities Survey. For cities in the population category of 30,000 – 74,999, Lynchburg placed fourth in the nation in FY 2005 for its use of information technologies to improve service delivery to citizens and to advance the concept of digital government.

The Information Technology Strategic Plan for the City was revised and expanded, covering seven focus areas to drive greater integration of the City’s systems and data. This plan outlines strategies and actions that will guide the advancement of information technologies in the City for the next several years.

## Public Safety

The City’s Healthy Neighborhoods Initiative (HNI) continued to progress in FY 2005. Building on earlier work, a Neighborhood Alliance Network was established to encourage and develop grassroots leadership in challenged neighborhoods. The goal is to bring together citizens, businesses, civic groups, faith-based ministries, non-profit agencies, and government to address neighborhood issues and build stronger communities.

The Lynchburg Police Department has maintained national accreditation and effectively practices “community policing”. Cooperation between the department and the community it serves, along with special initiatives such as Student CrimeStoppers, a Concerned Reliable Citizens Program to quickly relay information on criminal activity, and targeted enforcement activities in specific neighborhoods has helped the City to maintain the lowest crime rate of any independent city in the Central Virginia region. The Lynchburg Fire and Emergency Services Department continued to implement its strategic plan, adopted in 2003. Significant progress was made with Operation Smoke Detector, an initiative to install smoke detectors in every home in the City. The Fire Department continues to work toward national accreditation with recent focus on standards of cover and planning for future capital needs. Also of significance, ambulance billing, previously handled by department staff, was transitioned to a private company that could provide the service at a lower cost.

## Aviation

Lynchburg Regional Airport is owned and operated by the City of Lynchburg and is a full service airport offering an array of aeronautical services including scheduled airline service, aircraft charter, maintenance and avionics, fuel services, flight training, aircraft storage, and State Police emergency med-flight services. As the primary commercial service airport for Central Virginia, Lynchburg Regional Airport’s market area contains a population of more than 220,000. Offering a total of 18 scheduled airline arrivals and departures daily, the airport served over 130,000 passengers in FY2005 through the regional affiliates of two major airlines: Delta and US Airways.

The City has made significant improvements over the past several years to meet both commercial and general aviation needs, including: a full rehabilitation of both runways; acquiring new snow removal equipment; and constructing a new airfield maintenance facility, a new rental car service facility, a new state police airborne medical evacuation facility, and a new General Aviation terminal. The airport has an additional \$17 million in proposed projects in its five-year capital plan, including a 1,300-foot extension to the airport’s main runway that is currently in the engineering/design phase following the successful completion of an environmental assessment last year. Construction of the runway extension is scheduled to begin in the spring of 2006 at a cost of approximately \$8 million. Other projects underway include

construction of a 12-unit “T-hangar” complex with an adjoining conventional hangar, as well as various airfield ramp and vehicle roadway rehabilitation projects. All airfield projects are primarily funded by a combination of federal and state aviation funds, as well as Passenger Facility Charges (PFCs).

Despite significant uncertainty and financial upheaval in the airline industry, Lynchburg Regional Airport’s airline service has remained relatively stable. Jet service inaugurated by Delta Airlines in 2003 continues to perform well, while a newly merged US Airways/America West Airlines offers substantially improved turbo-prop service with six daily roundtrips to Charlotte, North Carolina. As a result, airport officials estimated that total passenger traffic grew by 10 percent in FY 2005.

The addition of a second fixed base operator (FBO), a fourth rental car concession, and an increase in terminal parking rates are expected to increase airport revenues and allow for a reduction in the subsidy to support airport operations provided by the City’s General Fund.

### **Financial Systems Initiatives**

Following the streamlining of the City’s Chart of Accounts initiative, a project/grant accounting module of the financial system software was implemented for general government capital projects. When fully implemented, the project/grant accounting module will provide the City with enhanced monitoring and reporting of expenditures and revenues for capital projects and grants on a life-to-date and fiscal year basis. The addition of enterprise funds capital projects is planned for FY 2006 as a continued expansion of the project/grant accounting module.

### **Prospects for the Future**

The City of Lynchburg is guided by a vision that addresses the challenges of an urban central city and builds on the strengths inherent in the City and the region. Council’s Vision, adopted in 2000 and reviewed and reaffirmed by City Council annually, calls for “a community environment second to none” characterized by stable, productive, inspired families; a superior education system; dynamic economic development; and responsive, effective local government.

Through sound fiscal management and making difficult choices, the City makes progress in fulfilling Council’s vision while operating with limited resources. While there are many challenges ahead, such as the continuing fiscal stresses inherent in older core cities, there is a high degree of confidence that the City will overcome such challenges and continue to make improvements that benefit all of its citizens. Using guidance provided by Council, City staff has developed specific objectives toward achievement of the vision.

On the state level, the City will remain active in the Virginia First Cities Coalition pushing for a statewide urban policy, tax reform, adequate funding for education, and other shared responsibilities. Internally, efforts will continue to identify improvements in technology, processes, and employee training and development that will help the City to maintain excellent core services while addressing new opportunities in a fiscally responsible manner. City administration is also developing performance measures to provide a better indicator of the efficiency and effectiveness of City operations and to benchmark against other localities.

Considerable capital investment will occur in several areas. First of all, the City’s commitment to the Schools’ facilities will continue to require significant resources. Renovations to E. C. Glass High School will continue into 2006 while smaller, but also important, improvements will be made to other Schools’ facilities. Investment in downtown will continue along the riverfront and in other areas with the goal of attracting significant private investment, strengthening the City’s tax base and creating dynamic and vibrant communities in the inner City. There is a growing feeling that downtown redevelopment is

reaching the critical mass of residential, business, and institutional activities necessary for it to become self-sustaining for the long term. Finally, future capital investment will occur in the CSO program and in the maintenance of the City's streets, bridges, and sidewalks.

Economic development activities will focus on promoting the City as a great place to live and work within Region 2000. Marketing efforts will target prospects for both downtown and the City's public and private industrial parks. Recognizing that economic development anywhere in the region provides benefits to Lynchburg, the City supports marketing efforts in neighboring jurisdictions as well. The City will continue working to accommodate appropriate commercial development to serve the region with shopping and dining opportunities. Lynchburg Regional Airport will remain an important transportation link for the area with a longer runway for expanded service.

An important focus in the coming years will be to promote vibrant and sustainable neighborhoods throughout the City. Building on the Healthy Neighborhoods Initiative, community-based programs will combine and coordinate existing resources in a manner designed to strengthen individuals and families.

While the challenges are many for the City, so are the opportunities for success. The City will continue to take the steps necessary to become the progressive community outlined in Council's Vision.

### **Accounting System and Budgetary Controls**

The City's accounting records for governmental fund type operations are maintained on a modified accrual basis with revenues being recorded when available and measurable, and expenditures being recorded when services or goods are received and liabilities are incurred. Accounting records for the City's proprietary fund types are maintained on an accrual basis.

In developing and refining the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (a) the safeguarding of assets against loss from unauthorized use or disposition and (b) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived and (2) the evaluation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within the above framework. The City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

City Council has approved financial policies to guide fiscal decision-making and to ensure continued strong financial health. In 1999, Debt Management and Fund Balance policies were adopted; a Budget Policy was adopted in 2000; and, in 2001, City Council adopted an Investment Policy. In September 2004, City Council reaffirmed these policies.

As required by law, each year, at least 60 days prior to June 30, the City Manager submits to City Council a recommended budget for the fiscal year beginning July 1. After an extensive budget preparation and review process and a public hearing to receive citizen input, City Council adopts the annual budget. The budget must be adopted on or before May 15.

### **Risk Management**

The City's Self-Insurance Plan and Risk Management Program combine self-insurance and third-party insurance coverage. The City is self-insured for workers' compensation, general liability, and automobile liability claims with outside insurance coverage for excess claims. The City also provides healthcare coverage through a professionally administered self-insurance program. The City has

extended coverage for environmental issues and for the Lynchburg Regional Airport. Additionally, the City continues to expand its employee health and wellness program and employs an Occupational Health Nurse. An outline of the City's Risk Management Program and related coverage is provided in the footnotes to the financial statements.

### **Cash Management**

The City uses a pooled cash concept to allow greater investment flexibility and consequently a better return on investments. All of the available City and Schools' cash, except for cash managed by fiscal agents, is pooled for investment purposes with maturities planned to coincide with cash needs. Cash temporarily idle during the year is invested in accordance with the Council-adopted Investment Policy. In September 2001, the City contracted with a private investment firm to assist in evaluating various investment alternatives to increase investment income. The Investment Policy's objectives are to ensure safety for the investment portfolio's principal, provide sufficient availability of funds to meet cash requirements, and maximize the investment rate of return on permitted investments in accordance with federal, state, and local laws and other regulations governing the investment of public funds.

### **Independent Audit**

State law and *City Code* require that the financial statements of the City be audited by an independent certified public accountant selected by City Council. Brown, Edwards & Company, L.L.P. has performed an audit of the Comprehensive Annual Financial Report (CAFR). The independent auditor's report, which includes their opinion on the basic financial statements consisting of the government-wide and fund financial statements, is contained in the Financial Section of this Report. Brown, Edwards & Company, L.L.P. also audited the component unit financial statements of Lynchburg City Schools but did not audit the statements of the Greater Lynchburg Transit Company or the Business Development Centre, Inc.

### **Certificates of Achievement for Excellence**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Lynchburg for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2004. This was the eighth consecutive year the City achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. The report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

## Acknowledgments

The preparation of the Comprehensive Annual Financial Report was made possible by the dedicated service of the staff of the Financial Services Department. Each member of the department has our appreciation for the contributions made by them in the preparation of this Report. Appreciation is expressed also to City Council for its interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



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L. Kimball Payne, III  
City Manager



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Michael W. Hill  
Director of Financial Services

**CITY OF LYNCHBURG, VIRGINIA**  
**COUNCIL-MANAGER FORM OF GOVERNMENT**

**DIRECTORY OF PRINCIPAL OFFICIALS**

**June 30, 2005**

**CITY COUNCIL**

Carl B. Hutcherson, Jr., Mayor

Joan Foster, Vice-Major  
Bert Dodson, Jr.  
Michael A. Gillette

Jeff S. Helgeson  
Ceasor T. Johnson  
Joseph M. Seiffert

**SCHOOL BOARD**

Julie P. Doyle, Chairman

Katherine Banks  
Albert L. Billingsly  
Leslie J. Faircloth  
Ellis M. Frankfort

Charles C. Hooks, Jr.  
Carol A. Spencer-Reid  
Thomas H. Webb  
Sterling A. Wilder

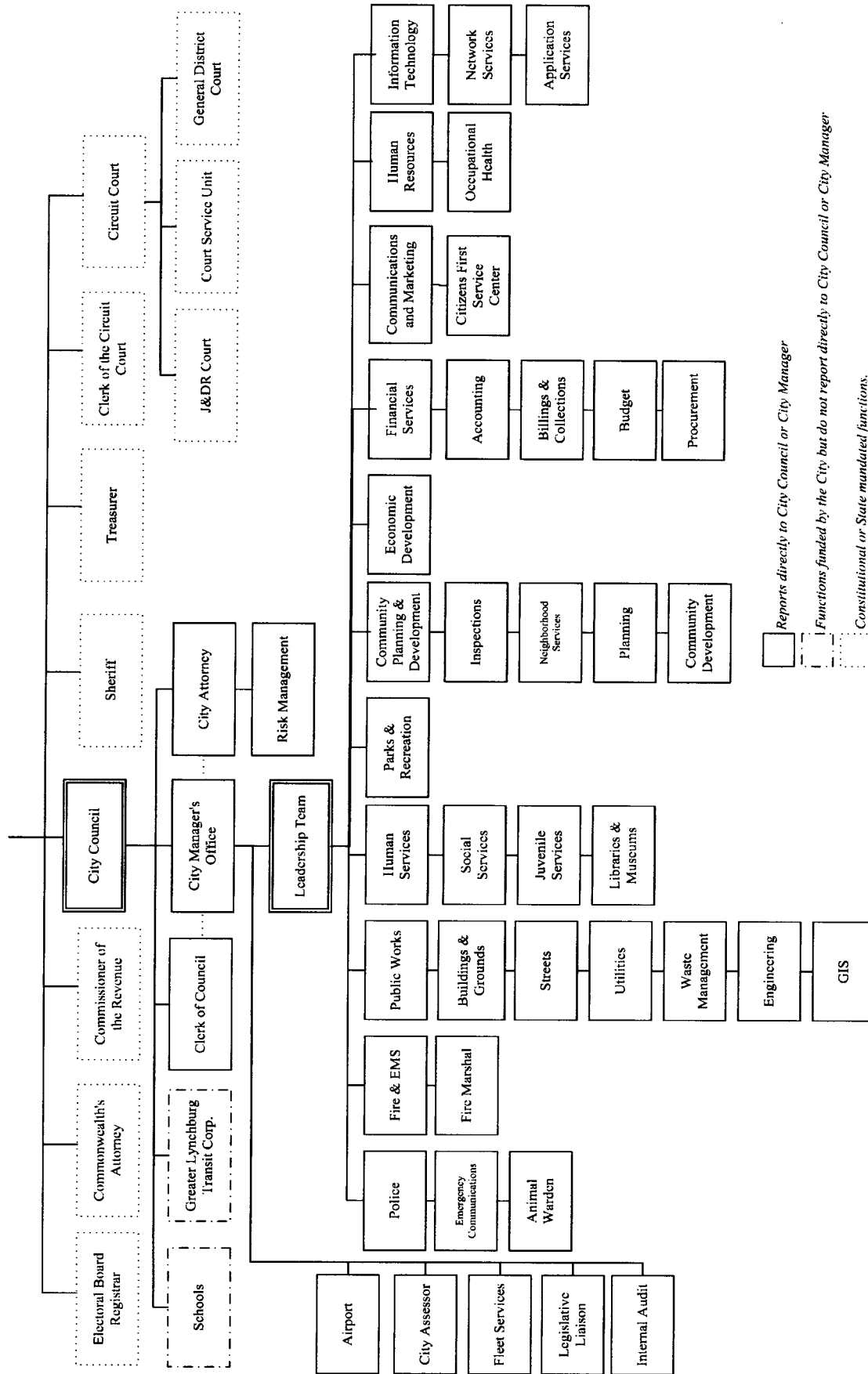
**OFFICIALS**

L. Kimball Payne, III  
Bonnie Svrcek  
Walter C. Erwin  
Michael W. Hill  
David C. Thurman  
Mitchell W. Nuckles  
Dr. Paul McKendrick

City Manager  
Deputy City Manager  
City Attorney  
Director of Financial Services  
Treasurer  
Commissioner of the Revenue  
Superintendent of Schools



CITY OF LYNCHBURG  
Citizens



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Lynchburg,  
Virginia

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Nancy L. Ziehl*

President

*Jeffrey R. Emer*

Executive Director

## **FINANCIAL SECTION**

## INDEPENDENT AUDITOR'S REPORT

To the Members of the City Council and the City Manager  
City of Lynchburg, Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lynchburg, Virginia, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units referred to as the Business Development Centre, Inc. and the Greater Lynchburg Transit Company, whose statements reflect total assets of \$1,269,142 and \$4,786,929, respectively, as of June 30, 2005, and total revenues of \$454,380 and \$3,722,448, respectively, for the year then ended. Those financial statements were audited by other auditors whose reports have been furnished to us; and our opinion, insofar as it relates to the amounts included for these discretely presented component units, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2005, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and the required supplementary information on page 3 and page 50 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual non-major fund statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. In addition, the accompanying schedules of passenger facility charges and of expenditures of passenger facility charges are presented for purposes of additional analysis as specified in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration, and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements, the schedule of expenditures of federal awards, and the schedules of passenger facility charges and of expenditures of passenger facility charges have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and in our opinion based on our audit and the report of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

*Brown, Edwards & Company, S. L. P.*

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
September 22, 2005

## CITY OF LYNCHBURG, VIRGINIA

### Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) of the City of Lynchburg's (City) financial statements offers the readers a narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2005. The Lynchburg City Schools (Schools) component unit is included in this narrative also. The information presented here should be considered in conjunction with additional information provided in the Letter of Transmittal.

### FINANCIAL HIGHLIGHTS

- The total assets of the City exceeded its total liabilities at June 30, 2005 by \$320.4 million (net assets). Unrestricted net assets of \$60.7 million were available to meet future obligations. This represented \$33.8 million for governmental activities, which included the General Fund, and \$26.9 million for business-type activities, which included the Enterprise Funds (Solid Waste Management, Water, Sewer, and Airport).
- The General Fund's undesignated fund balance of \$17.5 million was 14% of total General Fund revenues of \$129 million. This was \$4.6 million more than the City Council adopted undesignated fund balance policy target of 10%, or \$12.9 million.
- In comparison with the prior fiscal year, the City's total net assets increased 5%, or \$15.6 million. Net assets of governmental activities increased 4%, or \$5.9 million; and, net assets of business-type activities increased 7%, or \$9.7 million. The Schools' total net assets increased 19%, or \$0.3 million.
- The City's total revenues of \$184.5 million increased 3%, or \$5.3 million, and total expenses of \$168.9 million increased 1%, or \$2.4 million from FY 2004. General revenues and transfers of \$102.3 million were \$15.6 million more than the expenses net of program revenues of \$86.7 million.
- For the current fiscal year, the City's total debt of \$263.4 million decreased by 2%, or \$4.1 million. New long-term debt of \$6.7 million from the Virginia Revolving Loan Program (VRL) for sewer capital projects was issued, while there was \$15.1 million of planned principal retirements. The City issued \$33.1 million in general obligation refunding bonds to advance refund \$32.2 million of four general obligation bond series. This resulted in a \$1.8 million reduction in future debt service. Additionally, the City issued \$3.8 million in refunding taxable general obligation bonds to advance refund \$3.5 million of Schools' taxable general obligation bonds. This resulted in a \$0.2 million reduction in future debt service. Finally, the City participated in a \$5.1 million lease revenue note current refunding of a \$5.9 million lease revenue bond for a regional radio system. The City's 33.1% share in this joint venture resulted in a \$0.5 million savings in future debt service. Collectively, these refundings resulted in an economic gain of \$1.9 million.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The Comprehensive Annual Financial Report (CAFR) consists of four sections: *introductory, financial, statistical and compliance*. The financial section consists of the *independent auditor's report, management's discussion and analysis, basic financial statements and required supplementary information*. This Management's Discussion and Analysis serves as an introduction to the City's basic financial statements, which are the *government-wide financial statements, fund financial statements, and notes to the financial statements*. In addition to the required elements, an *other supplementary information* section is included which presents combining statements for non-major governmental, special revenue and capital funds, agency funds, discretely presented component units, budget and actual schedules for discretely presented component units, and other supplemental schedules.

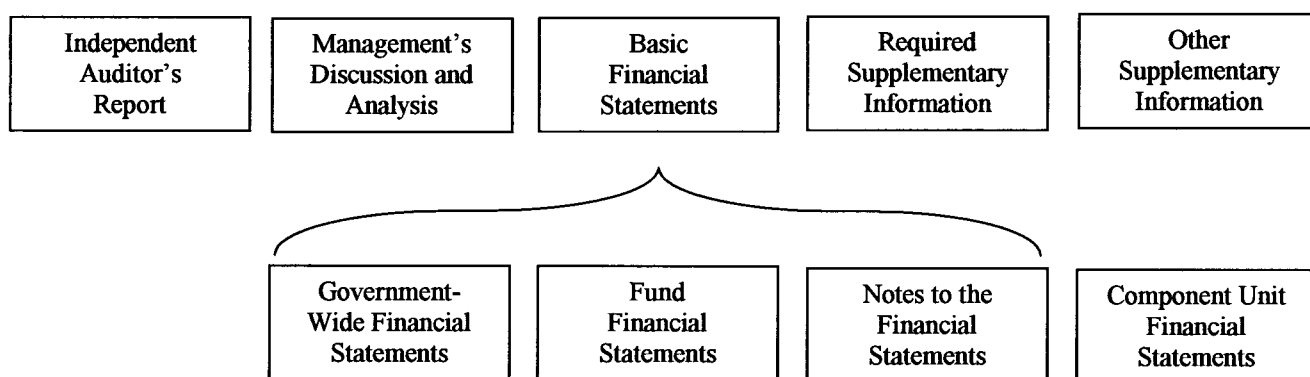
The City's basic financial statements present two kinds of statements, each with a different view of the City's finances. Both the government-wide and fund perspectives allow the reader to address relevant questions, broaden the basis of comparison and enhance the City's accountability.

- The first two statements are *government-wide financial statements* that provide both *short-term* and *long-term* information about the City's overall financial status.

- The remaining statements are *fund financial statements* that focus on *individual parts* of the City government, reporting the City's operations in more detail than the government-wide statements.
  - *Governmental fund statements* tell how *general government services* like public safety are financed in the *short-term* as well as what remains available for future spending.
  - *Proprietary fund statements* offer *short- and long-term* financial information about the activities the government operates *similar to businesses*, such as the public utilities systems (water and sewer).
  - *Fiduciary fund statements* provide information about the financial relationships in which the City acts solely as a *trustee or agent* for the benefit of others to whom the resources belong.

The financial statements also include *notes* that detail data supporting the information in the financial statements. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A summarizes the required elements of the financial section and its organization in the CAFR.

**Figure A**  
**Required Components of the Financial Section**



## GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are similar to those used by private-sector companies and report information about the City as a whole. One of the most important questions asked about the City's finances is, "Is the City as a whole better or worse as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which are the government-wide statements, report information about the City's finances and its activities to answer this question. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These statements combine and consolidate short-term, available resources with capital assets and long-term obligations.

The Statement of Net Assets and the Statement of Activities report the City's net assets and changes in net assets. One can think of the City's net assets – the difference between assets and liabilities – as a way to measure the City's financial health, or financial position. Over time, increases or decreases in net assets help determine whether the City's financial position is improving or deteriorating.

In the Statement of Net Assets and the Statement of Activities, the City is divided into the following:

**Governmental activities** - Most of the City's basic services are reported here: general government, police, fire, public works, health and human services, parks and recreation, community development and fleet internal services. Primarily, property taxes, other taxes, and intergovernmental revenue finance these activities.

**Business-type activities** - The financial information for the solid waste management, water, sewer and airport activities are reported here. The City charges a fee to customers to fund all or most of the cost of services provided by these activities.

**Component units** - The City also includes three separate legal entities in its Report – the Lynchburg City Schools, the Greater Lynchburg Transit Company, and the Business Development Centre, Inc. While these represent legally separate entities, their operational or financial relationship with the City makes the City financially accountable.

## **FUND FINANCIAL STATEMENTS**

A fund is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate fiscal accountability. As described in the following information, the City uses governmental, proprietary, and fiduciary fund financial statements to provide detailed information regarding its most significant funds.

### **Governmental Funds**

Governmental funds report most of the City's basic services. The funds focus on cash and other financial resources that can be readily converted to cash flows in and out, and balances left at year-end that are available for future spending. Consequently, the governmental funds statements provide a near or short-term view of the City's finances that helps the reader determine whether there are greater or fewer financial resources available in the near future to finance City programs. Because this information does not encompass the long-term focus of the government-wide statements, additional information is provided at the bottom of the governmental funds statements to explain the relationship (or differences) between them.

### **Proprietary Funds**

Proprietary funds report the same functions that are presented as business-type activities in the government-wide financial statements. Proprietary funds are classified as enterprise or internal service funds. An enterprise fund reports any activity for which fees are charged to external users for goods or services. Internal service funds account for goods and services provided on a cost reimbursement basis from activities within the government. The City maintains four enterprise funds to account for the solid waste management, water, sewer and airport operations; and, an internal service fund to account for its fleet services. Because fleet services predominantly benefit governmental rather than business-type functions, the internal service fund is included within governmental activities in the government-wide financial statements.

### **Fiduciary Funds**

Fiduciary funds account for assets held by the City in a trustee capacity or as an agent for others. Activities from fiduciary funds are not included in the government-wide financial statements because the City cannot use these assets for its operations.

### **Notes to the Financial Statements**

The Notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements, Transmittal Letter and the MD&A.

### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees.

The Combining and Individual Fund Statements and Schedules for all Non-major Funds include the governmental, special revenue, and capital projects funds.

The Schools' and the City's financial statements are included in one Comprehensive Annual Financial Report.

The Greater Lynchburg Transit Company and the Business Development Centre, Inc. issue separate reports.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

### Statement of Net Assets

The following table reflects condensed information for the City's net assets. Percentage changes in the table below were rounded for the following narrative.

*Summary of Statement of Net Assets  
As of June 30, 2005/2004  
(in millions)*

	Governmental Activities		Business-Type Activities		Total Primary Government		Percent Change	Component Unit Schools	
	2005	2004	2005	2004	2005	2004		2005	2004
		Restated		Restated		Restated			
Current and other assets	\$ 55.3	\$ 62.3	\$ 46.6	\$ 42.7	\$ 101.9	\$ 105.0	-2.95%	\$ 15.5	\$ 13.4
Capital assets	249.1	241.2	232.8	226.1	481.9	467.3	3.12%	2.0	1.7
Total assets	304.4	303.5	279.4	268.8	583.8	572.3	2.01%	17.5	15.1
Long-term liabilities	118.4	123.7	129.7	128.5	248.1	252.2	-1.63%	2.8	1.9
Other liabilities	11.7	11.4	3.6	3.9	15.3	15.3	0.00%	12.8	11.6
Total liabilities	130.1	135.1	133.3	132.4	263.4	267.5	-1.53%	15.6	13.5
Net Assets									
Invested in capital assets, net of related debt	140.5	135.4	119.2	112.0	259.7	247.4	4.97%	0.2	0.4
Unrestricted	33.8	33.0	26.9	24.4	60.7	57.4	5.75%	1.7	1.2
Total net assets	<u>\$ 174.3</u>	<u>\$ 168.4</u>	<u>\$ 146.1</u>	<u>\$ 136.4</u>	<u>\$ 320.4</u>	<u>\$ 304.8</u>	<u>5.12%</u>	<u>\$ 1.9</u>	<u>\$ 1.6</u>

The City's total net assets of \$320.4 million increased by 5%, or \$15.6 million, from FY 2004. Because of prior period adjustments, the City's FY 2004 net assets were restated. Please refer to Note 19 in the Comprehensive Annual Financial Report for more detailed information.

Net assets invested in capital, net of related debt, of \$259.7 million were 81% of total net assets and increased 5%, or \$12.3 million. Net assets invested in capital were not available for future expenses because they were facilities, equipment and infrastructure, etc. utilized to provide services. Please refer to Notes 8 and 9 of this report and the MD&A's capital assets and long-term debt sections.

The City has a strong financial position with 19%, or \$60.7 million, of unrestricted net assets, which are comprised of 56% or \$33.8 million for governmental activities, and 44%, or \$26.9 million, for business-type activities. Unrestricted net assets available for providing services to the citizens increased 6%, or \$3.3 million.

The Schools' component unit total net assets of \$1.9 million increased 19%, or \$0.3 million. Unrestricted net assets of \$1.7 million increased 42%, or \$0.5 million.

## Statement of Activities

The City's total revenues and expenses for governmental and business-type activities are reflected in the following table. Percentage changes in the table below were rounded for the following narrative.

### *Summary of Changes in Net Assets For Fiscal Years Ended June 30, 2005/2004 (in millions)*

	Governmental Activities		Business-type Activities		Total Primary Government		Percentage Change	Component Unit Schools	
	2005	2004	2005	2004	2005	2004		2005	2004
Revenues:									
Program Revenues:	Restated		Restated		Restated				
Charges for services	\$ 9.1	\$ 7.6	\$ 32.8	\$ 30.8	\$ 41.9	\$ 38.4	9.11%	\$ 1.6	\$ 1.7
Operating grants/contributions	29.9	34.1	0.3	0.3	30.2	34.4	-12.21%	48.9	45.5
Capital grants/contributions	4.1	2.1	5.5	7.2	9.6	9.3	3.23%	-	-
General Revenues:									
Property taxes	49.8	47.7	-	-	49.8	47.7	4.40%	-	-
Other taxes	42.4	39.0	-	-	42.4	39.0	8.72%	-	-
Unrestricted intergovernmental	8.4	8.4	-	-	8.4	8.4	0.00%	-	-
Interest	1.0	0.2	0.3	0.3	1.3	0.5	160.00%	-	-
Miscellaneous	0.4	1.3	-	-	0.4	1.3	-69.23%	0.5	0.4
Transfers	-	-	0.5	0.2	0.5	0.2	150.00%	-	-
City appropriation	-	-	-	-	-	-	-	27.1	26.0
Total Revenues	<u>\$ 145.1</u>	<u>\$ 140.4</u>	<u>\$ 39.4</u>	<u>\$ 38.8</u>	<u>\$ 184.5</u>	<u>\$ 179.2</u>	<u>2.96%</u>	<u>\$ 78.1</u>	<u>\$ 73.6</u>
Expenses:									
General government	10.1	9.5	-	-	10.1	9.5	6.32%	-	-
Judicial	4.7	4.3	-	-	4.7	4.3	9.30%	-	-
Public safety	35.8	33.4	-	-	35.8	33.4	7.19%	-	-
Public works	18.8	18.1	-	-	18.8	18.1	3.87%	-	-
Health and human services	21.3	20.4	-	-	21.3	20.4	4.41%	-	-
Cultural and recreational	8.2	7.9	-	-	8.2	7.9	3.80%	-	-
Community development	6.4	10.4	-	-	6.4	10.4	-38.46%	-	-
Education	28.6	27.6	-	-	28.6	27.6	3.62%	77.8	75.0
Interest pymt & other fis chg	4.6	3.5	-	-	4.6	3.5	31.43%	-	-
Issuance costs	0.2	-	-	-	0.2	-	100.00%	-	-
Transfers	0.5	0.2	-	-	0.5	0.2	150.00%	-	-
Transit	-	-	-	-	-	-	-	-	-
Solid waste management	-	-	5.8	6.9	5.8	6.9	-15.94%	-	-
Airport	-	-	3.4	3.6	3.4	3.6	-5.56%	-	-
Water	-	-	8.7	8.9	8.7	8.9	-2.25%	-	-
Sewer	-	-	11.8	11.8	11.8	11.8	0.00%	-	-
Total Expenses	<u>\$ 139.2</u>	<u>\$ 135.3</u>	<u>\$ 29.7</u>	<u>\$ 31.2</u>	<u>\$ 168.9</u>	<u>\$ 166.5</u>	<u>1.44%</u>	<u>\$ 77.8</u>	<u>\$ 75.0</u>
Change in net assets	<u>5.9</u>	<u>5.1</u>	<u>9.7</u>	<u>7.6</u>	<u>15.6</u>	<u>12.7</u>	<u>22.83%</u>	<u>0.3</u>	<u>(1.4)</u>
Net assets beginning-restated	<u>168.4</u>	<u>163.3</u>	<u>136.4</u>	<u>128.8</u>	<u>304.8</u>	<u>292.1</u>	<u>4.35%</u>	<u>1.6</u>	<u>3.0</u>
Net assets ending	<u>\$ 174.3</u>	<u>\$ 168.4</u>	<u>\$ 146.1</u>	<u>\$ 136.4</u>	<u>\$ 320.4</u>	<u>\$ 304.8</u>	<u>5.12%</u>	<u>\$ 1.9</u>	<u>\$ 1.6</u>

## **Governmental Activities**

The City's governmental activities are comprised of the General Fund, Fleet Internal Services Fund, and Special Revenue Funds. Special Revenue Funds are primarily for general government Grant Funds, City Capital and Schools' Capital Projects Funds. Total net assets of \$174.3 million increased 4%, or \$5.9 million from FY 2004.

Net assets invested in capital, net of related debt, increased 4%, or \$5.1 million. Of total net assets, 81%, or \$140.5 million, was invested in capital assets, net of related debt, and not available for future expenses.

Unrestricted net assets available to provide services to citizens increased 2%, or \$0.8 million; and, were 19%, or \$33.8 million of total net assets.

## **Revenues**

Revenues from governmental activities of \$145.1 million increased 3%, or \$4.7 million, from the prior year.

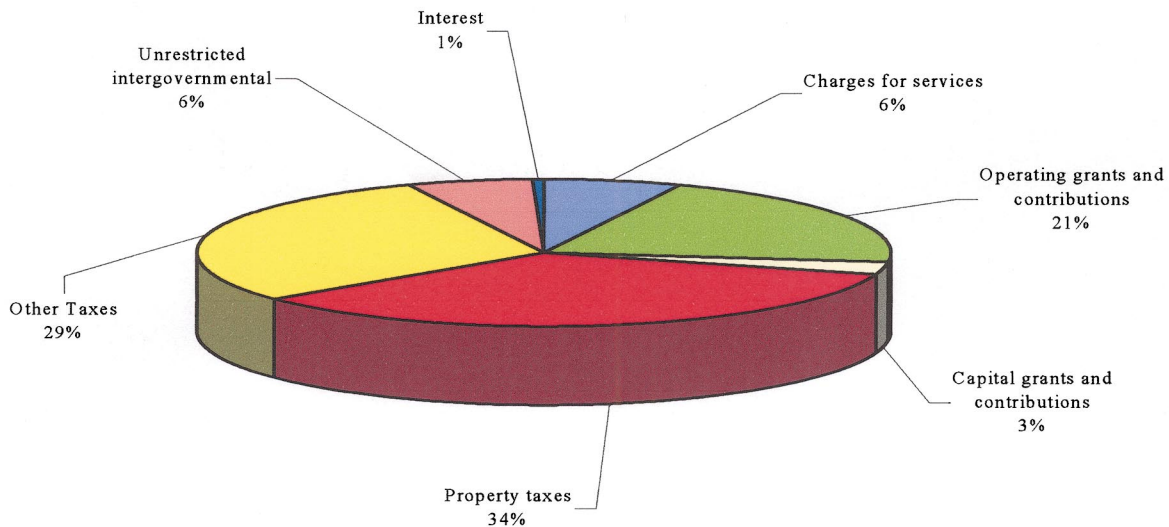
General revenues, specifically Property Taxes of \$49.8 million, 34% of total revenues, and Other Local Taxes of \$42.4 million, 29% of total revenues, were the largest components of this revenue category equaling \$92.2 million, or 64% of total revenues. Real property taxes revenue of \$35 million, the City's largest single revenue, increased 3%, or \$1 million. The FY 2005 assessed real property tax base increased 2.36% due to general reassessments that occur every other fiscal year. The real property tax rate has been \$1.11 per \$100 of assessed real property value for the last eight years.

Of the \$49.8 million in Property Taxes revenues, the City received \$15.5 million from personal property taxes, which was 11% of total revenues. This was the second largest revenue source comprised of taxes on individual automobiles, business personal property, and machinery and tools. The City received \$5.2 million from the Commonwealth of Virginia under the provisions of the Personal Property Tax Relief Act of 1998 (PPTRA). The state's share was based on 70% percent of the individual taxpayers' automobile levy. When the state reimbursement was added back to the local personal property taxes, there was a total of \$20.7 million, reflecting an 8%, or \$1.6 million, increase.

Other Taxes of \$42.4 million, 29% of total revenues was comprised of revenue from Local Sales, Consumer Utilities, Business Licenses, and Meals Taxes. Local Sales Tax revenues were \$12.2 million and increased 6%, or \$0.7 million. Meals Taxes of \$8.6 million increased 15%, or \$1.1 million, and Business Licenses Taxes of \$7 million increased 15%, or \$0.9 million. The combination of these revenues resulted in an overall increase of 9%, or \$3.4 million, in Other Taxes revenue.

Operating grants and contributions of \$29.9 million, 21% of total revenues, were comprised of revenues from the Commonwealth of Virginia and the federal government primarily for health and human services, public works, public safety and judicial activities. The 12%, or \$4.2 million, decrease related primarily to one-time FY 2004 federal funding of \$3.2 million for the BluffWalk Center community development project, and \$0.6 million of reduced funding for the Revenue Maximization and Temporary Assistance for Needy Families (TANF) health and human services programs.

### *Revenue by Source-Governmental Activities*



### **Expenses**

Governmental activities expenses totaled \$139.2 million, which included a 2% increase for City employee compensation, and a 4%, or \$1.0 million, increase in the local contribution to the Schools. This represented a 3% increase, or \$3.9 million, as compared to the prior year.

The four largest funded programs were: public safety at 26%, or \$35.8 million; local support for education at 21%, or \$28.6 million; health and human services at 15%, or \$21.3 million; and public works at 14%, or \$18.8 million. Education continued to be one of the highest priorities and commitments. In addition to the local operating contribution, the City contributed \$9.2 million to the Schools for capital projects.

The following table indicates the total cost of services and net cost of services for governmental activities.

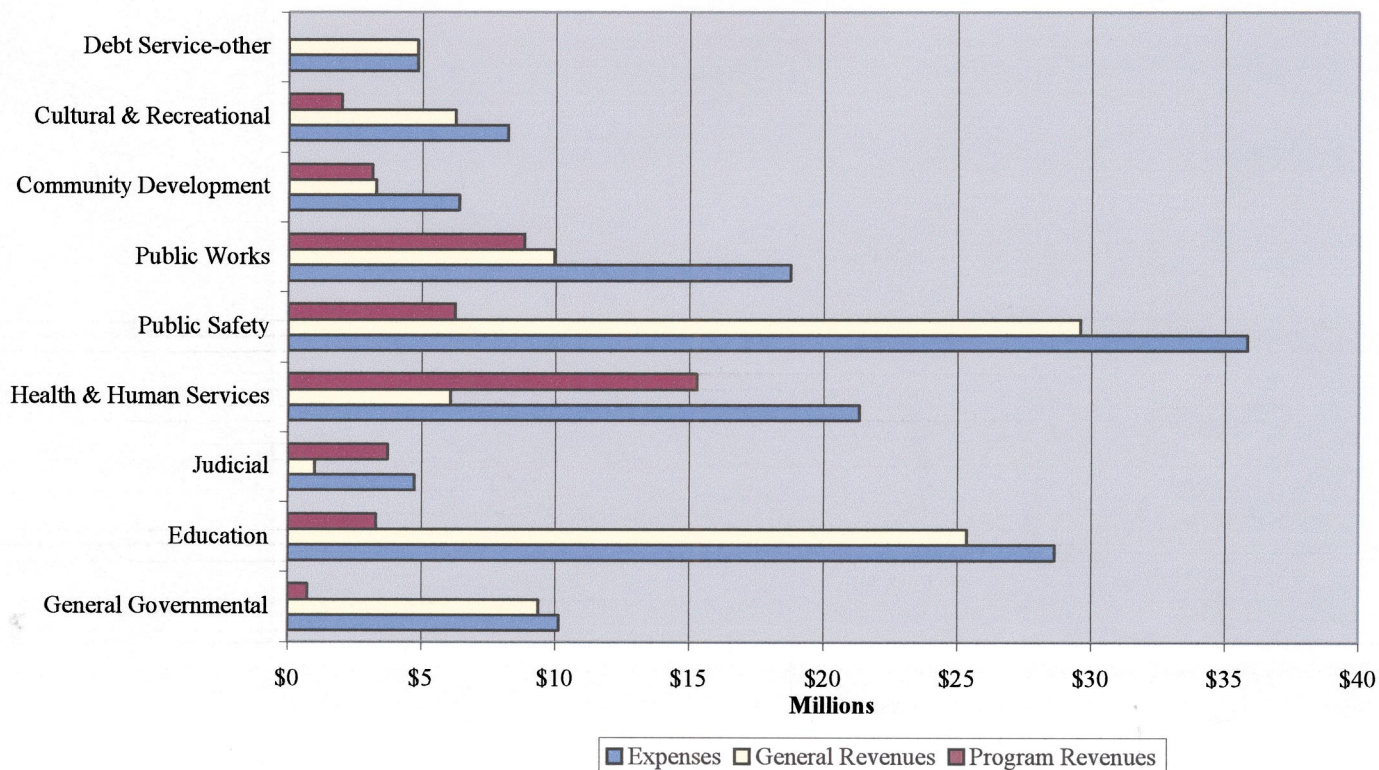
### *Net Cost of Governmental Activities For Fiscal Years Ended FY 2005/2004 (in millions)*

Governmental Activity	Total Cost of Services		Percentage Change 2005-2004	Net Cost of Services		Percentage Change 2005-2004
	2005	2004		2005	2004	
General government	\$ 10.1	\$ 9.5	6.32%	\$ 9.4	\$ 8.8	6.82%
Judicial	4.7	4.3	9.30%	1.0	1.5	-33.33%
Public safety	35.8	33.4	7.19%	29.6	26.8	10.45%
Public works	18.8	18.1	3.87%	9.9	10.6	-6.60%
Health and human services	21.3	20.4	4.41%	6.1	4.9	24.49%
Cultural and recreational	8.2	7.9	3.80%	6.2	5.7	8.77%
Community development	6.4	10.4	-38.46%	3.3	3.3	0.00%
Education	28.6	27.6	3.62%	25.4	26.4	-3.79%
Interest payments & other fiscal charges	4.6	3.7	24.32%	4.6	3.7	24.32%
Issuance costs & other	0.7	-	100.00%	0.7	-	100.00%
<b>Total Governmental Activities</b>	<b>\$ 139.2</b>	<b>\$ 135.3</b>	<b>2.88%</b>	<b>\$ 96.2</b>	<b>\$ 91.7</b>	<b>4.91%</b>

The governmental activities total cost of services increased 2.88% and its net cost of services increased 4.91% from the prior year. The Statement of Activities shows that the \$138.8 million in governmental activities program expenses were financed by \$9.1 million (7%) from those receiving services, \$29.9 million (22%) from operating grants and contributions, \$4.1 million (3%) from capital grants and contributions, and \$95.6 million (69%) from general revenues. Overall, general revenues and transfers of \$101.5 million were \$5.9 million more than the \$95.6 million of expenses net of program revenues.

The following graph compares the governmental activities program expenses and program revenues, and indicates program funding from general revenues.

*Program Expenses and Program Revenues - Governmental Activities*



### **Business-type Activities**

The business-type activities are comprised of Enterprise Funds for solid waste management, water, sewer, and airport operations. Total net assets of \$146.1 million increased by 7%, or \$9.7 million, from FY 2004.

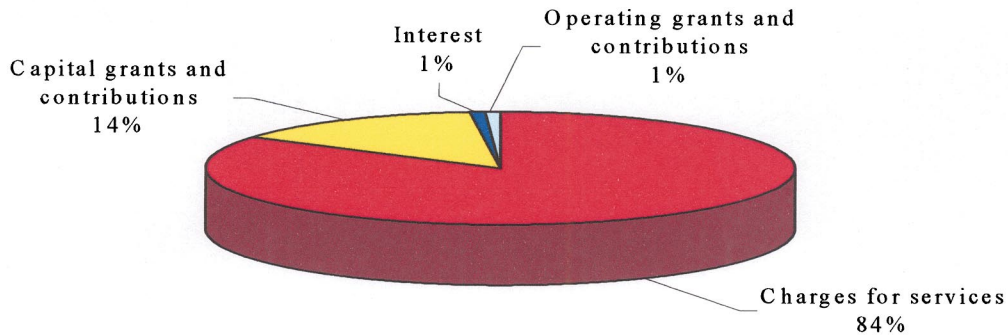
Net assets invested in capital, net of related debt, increased 6%, or \$7.2 million. For total net assets, 82%, or \$119.2 million, was invested in capital, net of related debt, and not available for future expenses.

Unrestricted net assets available to provide services to citizens increased 10%, or \$2.5 million; and, were 18%, or \$26.9 million, of total net assets.

### **Revenues**

Business-type activities revenues increased 2%, or \$0.6 million, from the prior year. This was primarily due to decreased intergovernmental capital grant contributions of \$1.7 million for the Combined Sewer Overflow (CSO) program and the airport. Increases in charges for services of 7%, or \$2 million, were due to 4% rate increases for water and sewer services. Of the \$39.4 million in total revenues, 84%, or \$32.8 million, was from charges for services, and 14%, or \$5.8 million, was from operating/capital grants and contributions, the majority of which was for CSO correction activities.

### *Revenues by Source - Business-type Activities*



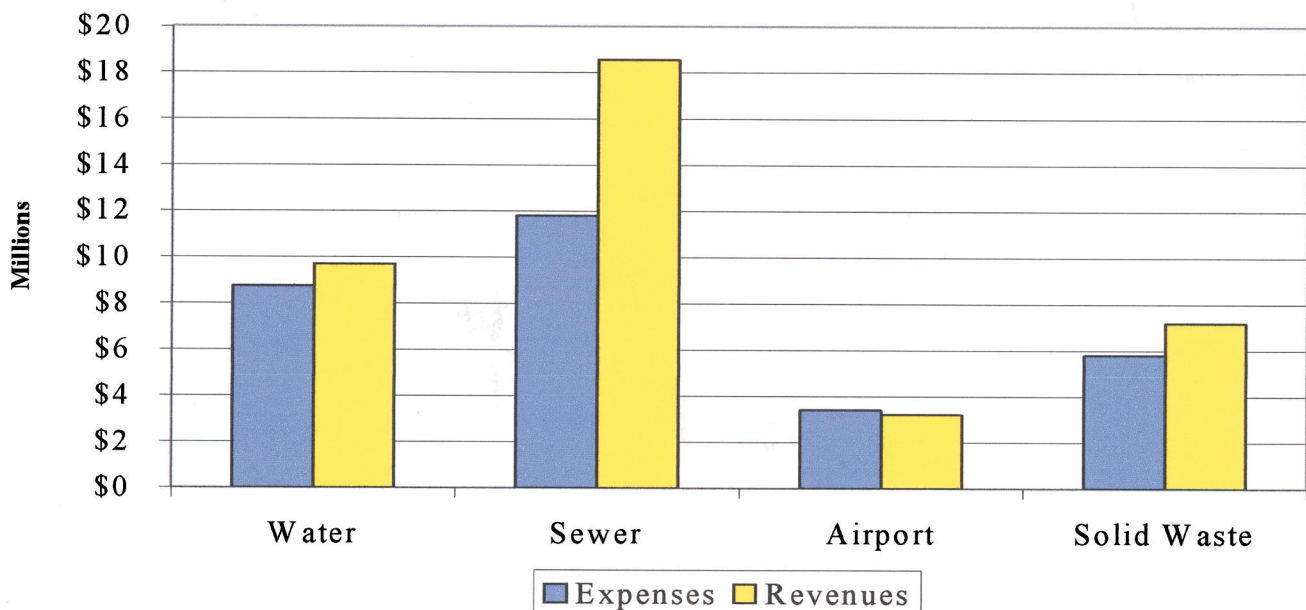
### **Expenses**

Business-type activities expenses of \$29.7 million decreased 5%, or \$1.5 million, from the prior year. This was due primarily to reduced operation and maintenance expenses including depreciation.

The Proprietary Funds provide the same type of information reported in the government-wide financial statements for business-type activities, but in more detail. Please refer to the MD&A's section on Financial Analysis of the Fund Financial Statements-Proprietary Funds for detailed analysis of the business-type activities major funds.

Overall, business-type activities revenues were \$9.7 million more than expenses. The following graph compares the business-type activities' program expenses and program revenues.

### *Program Expenses and Program Revenues - Business-type Activities*



## **Component Unit – Schools**

The Schools' total net assets of \$1.9 million increased 19%, or \$0.3 million, from FY 2004 primarily due to a capital lease obligation and related equipment acquisitions.

### **Revenues**

Total revenues of \$78.1 million increased 6%, or \$4.6 million, from the prior year. For FY 2005, 50%, or \$39 million, of total revenues received from the Commonwealth of Virginia included \$9.1 million in sales tax receipts. The City government appropriated \$27.1 million to education or 35% of total revenues. Federal revenues of 8%, or \$6 million, included \$3 million from Title I funds to provide educational services to economically disadvantaged students and \$2.2 million to provide special education services for students with disabilities. School Nutrition revenues of \$3 million included \$2 million from the federal government for the operation of the breakfast and lunch programs. Other revenue sources of \$3 million included school meals sales, tuition paid by participating school divisions to the Central Virginia Governor's School for Science and Technology, and other miscellaneous sources.

### **Expenses**

Total expenses of \$77.8 million increased 4%, or \$2.8 million, from the prior year. For FY 2005, 74%, or \$58 million, of total expenses related directly to providing instruction to 8,625 students; and, 14%, or \$11 million, supported maintenance and operations of school division facilities including the operations of the School Nutrition Program, which provided breakfast and lunch to students. Transportation costs for students were 4%, or \$3 million, and 3%, or \$2.1 million, provided administration for the schools, attendance and health services for students. Capital outlays of 5%, or \$3.6 million, of total expenses included the acquisition of equipment. Purchases from capital lease proceeds of \$1.5 million were included in capital outlay expenditures.

## **FUND FINANCIAL ANALYSIS**

### **Governmental Funds**

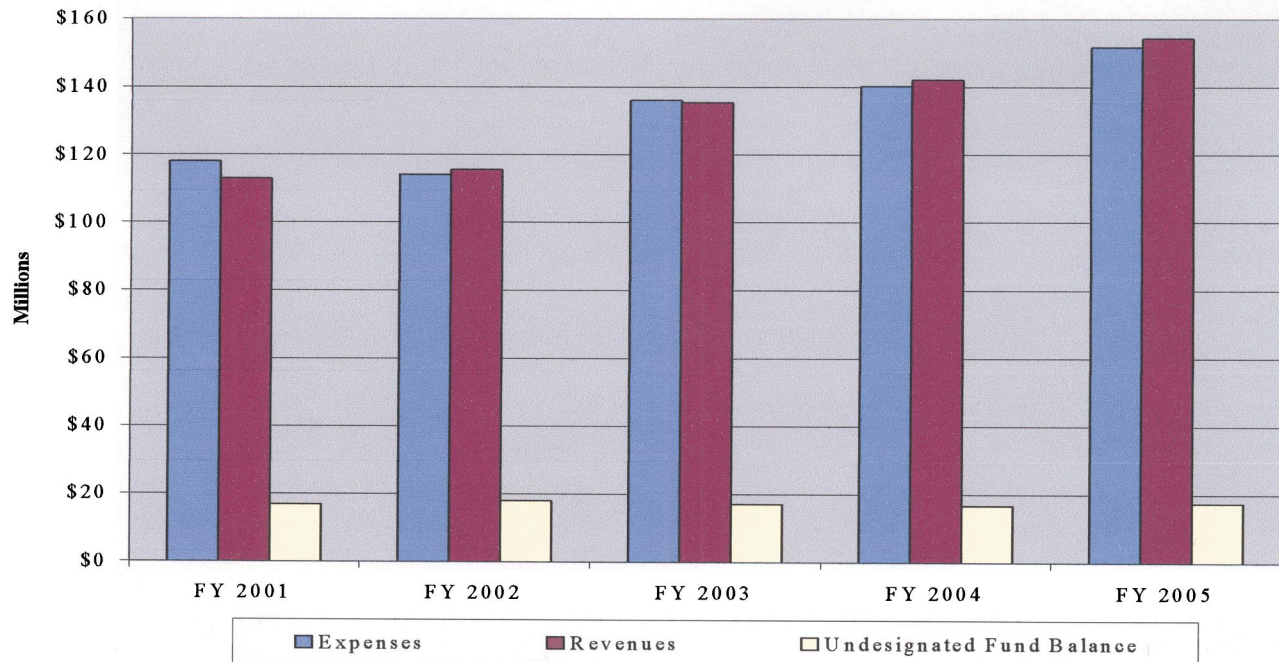
Governmental Funds include the General Fund and Other Governmental Funds, which are comprised of the Special Revenue and Capital Projects Funds. The governmental funds' focus is to provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing financing requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for future spending.

- For FY 2005, the City's governmental funds reported combined fund balances of \$34.3 million. Of the combined fund balances, \$17.8 million constituted undesignated fund balances available for future expenses representing \$17.5 million for the General Fund, \$2.9 million for Special Revenue Funds and a \$2.6 million deficit fund balance in the Capital Project Fund. This deficit was due to encumbrance obligations and not the result of a cash deficit. Typically, the City has an annual bond issuance to finance capital projects; however, the FY 2005 bond sale was deferred to FY 2006 to finance both years of capital projects' expenditures.
- The \$2.9 million undesignated fund balances for Other Governmental Funds was comprised of the Special Revenue Funds primarily related to the E-911 and Technology Funds.
- Of the combined fund balances, \$8.4 million was designated, indicating commitment to specific uses comprised primarily of \$3.9 million reserved for the Schools, \$2 million for the City's self-insurance program and \$0.6 in the Special Revenue Funds. The FY 2005 reserve for encumbrances of \$8.1 million consisted primarily of \$4 million for the E.C.Glass High School renovation capital project, \$1.6 million for general government infrastructure projects, \$0.3 million for parks and recreation capital projects and \$0.4 million for economic development capital projects. Please refer to Note 11 of this report for details of all designations.

## General Fund

The General Fund is the chief operating fund of the City. The following graph and table present a five-year summary of financial information for expenses, revenues and undesignated fund balance as well as a FY 2005 summarized comparison of budget versus actual information.

*Five-Year General Fund Financial Summary*



*General Fund Budgetary Highlights  
For Fiscal Year Ended June 30, 2005  
(in millions)*

Description	Original Budget	Amended Budget	Actual	Amended versus Actual
<u>Revenues &amp; Other Financing Sources</u>				
Taxes	\$ 89.0	\$ 90.3	\$ 91.7	\$ 1.4
Intergovernmental	27.7	28.1	27.3	(0.8)
Other	11.9	36.9	35.4	(1.5)
Total	128.6	155.3	154.4	(0.9)
<u>Expenditures &amp; Other Financing Uses</u>				
Expenditures	93.0	153.1	146.6	6.5
Transfers	33.4	5.3	5.2	0.1
Total	126.4	158.4	151.8	6.6
<u>Change in Fund Balance</u>	<u>\$ 2.2</u>	<u>\$ (3.1)</u>	<u>\$ 2.6</u>	<u>\$ 5.7</u>

Actual expenditures and other financing uses of \$151.8 million were less than revenues and other financing sources of \$154.4 million by \$2.6 million.

Actual revenues were lower than estimated and within 0.6%, or \$0.9 million, of the amended budget; however, the taxes category realized \$1.4 million more revenue. The largest increase of \$1 million was due to greater than anticipated local personal property tax. Business license revenue performed better than originally estimated by \$0.3 million due to increased assessments and an influx of new businesses. Intergovernmental revenue was less than anticipated by \$0.8 million due to less funding from the Commonwealth of Virginia for personal property taxes. A \$1.5 million Other category revenue loss was primarily due to \$0.6 million for non-emergency ambulance transports no longer funded by Medicare, and a \$0.4 million Blue Ridge Regional Jail reimbursement received in FY 2006.

Actual expenditures and transfers were \$6.6 million less than the amended budget and attributable to unexpended appropriations of:

- \$4.0 million for education one-time expenditures  
This is based on a City/Schools agreement to return unexpended Schools' funds at fiscal year end to the General Fund for subsequent re-appropriation to the Schools for one-time expenditures.
- \$0.5 million for public safety
- \$0.6 million for public works
- \$0.6 million for health and human services
- \$0.6 million for recreation and community planning
- \$0.3 million for debt service and issuance costs

City Council appropriated \$1.2 million for a contingency reserve and authorized 26%, or \$0.3 million, for public safety, transportation expenditures, and personal property taxes receivable software. The remaining 74% reverted to undesignated fund balance.

From the original budget of \$126.4 million, City Council approved budget amendments of 25%, or \$32 million, resulting in an amended budget of \$158.4 million. The budget amendments were primarily for the following purposes:

- \$0.4 million for fire department staff compensation
- \$1.4 million for prior year unexpended items requested to be re-appropriated in the current year to continue programs
- \$24.2 million for retirement of refunded bonds financed from refunding bond proceeds
- \$4.4 million for third quarter budget amendment requests. Each fiscal year, management reviews current year expenditures and revenue collection patterns, and presents to City Council a third quarter budget amendment. The FY 2005 amendment was comprised primarily of \$2.0 million for the Schools based on the agreement to re-appropriate unexpended prior year funds, \$0.9 million for a downtown revitalization project, and \$0.9 million for health and human services programs.

### **Proprietary Funds**

The proprietary funds are comprised of solid waste management, water, sewer, airport and fleet services. The City accounts for the water, sewer, airport, and solid waste management as enterprise funds and fleet services as an internal service fund. In the budgetary management of the enterprise funds, the City has chosen to budget for principal retirement on long-term debt rather than depreciation. Further, the City uses two key financial indicators, fund balance and debt coverage ratios, found in financial policies adopted by City Council to ensure the enterprise funds' financial stability. At the fund level, debt coverage is defined as the number of times debt service is covered by net income as defined; and, increased for depreciation and amortization expenses, and grant and interest income. Fund balance is defined as total cash less unexpended bond proceeds, customer deposits, and resources dedicated to capital projects. The fund balance ratio is determined by comparing this fund balance amount to operating expenses exclusive of depreciation, and inclusive of principal and interest debt service payments for the fiscal year.

## **Water Fund**

The Water Fund's total net assets of \$32 million increased 3%, or \$1 million, from FY 2004.

Net assets invested in capital, net of debt, of \$25.8 million increased 6%, or \$1.5 million, due to renovations of a water plant facility and water tanks; and, were 81% of total net assets.

Unrestricted net assets available to fund future expenses decreased by 6%, or \$0.4 million, due to the result of operations as noted and the investment of pay-as-you go local funds for capital projects. Unrestricted net assets were 19%, or \$6.2 million, of total net assets.

Operating revenues totaled \$9.5 million and increased 5%, or \$0.5 million, due to a 4% rate increase effective July 1, 2004.

Operating expenses totaled \$7.7 million and decreased 1%, or \$0.1 million, due to reduced depreciation.

The fund balance of \$4.6 million resulted in a fund balance ratio of 52%, which compared favorably to City Council's financial policy target of 40%. The debt coverage ratio was 1.27, which compared favorably to City Council's adopted financial policy target of 1.2.

## **Sewer Fund**

The Sewer Fund's total net assets of \$82.3 million increased 11%, or \$8.1 million, from FY 2004.

Net assets invested in capital, net of debt, of \$69.2 million increased 10%, or \$5.8 million, due to completion of CSO projects and \$6.7 million of VRL Program new long-term debt. Net assets invested in capital were 84% of total net assets.

Unrestricted net assets available to fund future expenses increased by 22%, or \$2.4 million, due to the results of operations as noted along with a \$0.3 million disposition of assets loss. Unrestricted net assets were 16%, or \$13.2 million, of total net assets.

Operating revenues totaled \$14.7 million and increased 6%, or \$0.8 million, due to a 4% rate increase effective July 1, 2004.

Operating expenses totaled \$9.9 million and decreased 4%, or \$0.4 million, from a mild winter with lower storm sewer and James River Interceptor maintenance costs.

The fund balance of \$3.1 million resulted in a fund balance ratio of 24%, compared to City Council's financial policy target of 25%. The debt coverage ratio was 1.36, which compared favorably to City Council's adopted financial policy target of 1.2 and the CSO Order requirements. Please refer to Note 9 of this report for details.

## **Airport Fund**

The Airport Fund's total net assets of \$23.3 million increased 1%, or \$0.3 million, from FY 2004.

Unrestricted net assets available to fund future expenses increased 63%, or \$0.5 million, due to advanced state entitlement funds for a FY 2006 runway extension project. Unrestricted net assets were 6%, or \$1.3 million, of total net assets.

Operating revenues totaled \$1.7 million, an increase of 13%, or \$0.2 million, due primarily to increased Parking and Rental Car concessions revenues.

Operating expenses totaled \$3.3 million and decreased of 11%, or \$0.4 million, primarily due to a one-time FY 2004 \$0.5 million Delta Airlines payment in accordance with a federal reimbursable revenue-guarantee agreement. Capital contributions totaled \$1.2 million, a decrease of 52%, or \$1.3 million, due to fluctuations in annual capital activity.

Because of the subsidy provided from the General Fund of \$0.4 million, the City Council adopted financial policies were not applicable to this Fund.

## Solid Waste Management Fund

The Solid Waste Management Fund's total net assets of \$10.2 million increased 31%, or \$2.4 million, from FY 2004.

Unrestricted net assets available to fund future expenses increased 38%, or \$ 2.2 million; and, were 78%, or \$8.0 million, of total net assets.

Operating revenues totaled approximately \$7 million and increased 10%, or \$ 0.6 million, due to increased revenues of \$0.5 million from a new residential refuse disposal flat fee.

Operating expenses totaled \$5 million and decreased 19%, or \$1.2 million, primarily due to a one-time FY 2004 \$0.8 million purchase of refuse carts to implement Semi-automated Residential Refuse Collection. Dry weather conditions resulted in a \$0.2 million reduction of daily materials maintenance costs; and, there was a \$0.2 million reduction of closure cost liability.

The fund balance of \$4.8 million resulted in a fund balance ratio of 77%. This ratio compared favorably to City Council's financial policy target of 40%. Additionally, the debt coverage ratio was 2.48, which compared favorably to City Council's adopted financial policy target of 1.2.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The City's capital assets, net of depreciation, were \$481.9 million as reflected in the following schedule. The Schools had \$2 million in capital assets exclusive of buildings and facilities, which are capitalized as the City's assets.

*Capital Assets  
As of June 30, 2005/2004  
(in millions)*

	Governmental Activities		Business-type Activities		Total Primary Government		Percentage Change	Component Unit Schools	
	2005	2004	2005	2004	2005	2004	2005-2004	2005	2004
	Restated				Restated				
Non-Depreciable Assets:									
Land	\$ 8.6	\$ 9.0	\$ 5.6	\$ 5.4	\$ 14.2	\$ 14.4	-1.39%	\$ -	\$ -
Construction in Progress	13.1	25.5	26.8	24.2	39.9	49.7	-19.72%	-	-
Other Capital Assets:									
Land Improvements	7.9	6.3	15.5	15.1	23.4	21.4	9.35%	-	-
Buildings and Improvements	170.4	145.8	35.6	35.9	206.0	181.7	13.37%	-	-
Infrastructure	186.3	183.4	232.9	222.1	419.2	405.5	3.38%	-	-
Machinery and Equipment	29.6	27.7	14.4	14.7	44.0	42.4	3.77%	6.3	5.7
Less: Accumulated Depreciation	(166.8)	(156.5)	(98.0)	(91.3)	(264.8)	(247.8)	6.86%	(4.3)	(4.0)
Total	<u>\$ 249.1</u>	<u>\$ 241.2</u>	<u>\$ 232.8</u>	<u>\$ 226.1</u>	<u>\$ 481.9</u>	<u>\$ 467.3</u>	<u>3.12%</u>	<u>\$ 2.0</u>	<u>\$ 1.7</u>

During FY 2005, the City's net increase in capital assets was 3.12%, or \$14.6 million. Major capital asset events included the following (in millions):

Construction in progress converted to capital assets:

Completion of a new gymnasium and science wing at E. C. Glass High School and partial completion of extensive renovations to the existing building, financed by a bond anticipation note (permanently financed by a FY 2006 Virginia Public School Authority bond), historical tax credits, state lottery funds, state construction funds and general obligation bonds	18.2
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Completion of several Combined Sewer Overflow (CSO) replacement projects, financed by a combination of VRL Program funds, state and federal CSO grants and general obligation bonds	7.3
Completion of several Lynchburg Regional Airport improvement projects, including the rehabilitation of Taxiway B and Runway 4-22	2.5
Completion of the Old Courthouse Museum renovation project, financed by a combination of historical tax credits and general obligation bonds	2.1
Completion of the Campbell Avenue bridge and Cranehill Drive bridge replacement projects, financed by general obligation bonds	2.0
Completion of the Heritage Elementary School renovation project, financed by local pay-as-you-go capital monies and general obligation bonds	<u>1.0</u>
Total construction in progress converted to capital assets	<u>33.1</u>
On going replacement of the vehicle fleet, financed through local operating monies	1.6
Replacement of three fire trucks, financed through general obligation bonds	<u>0.8</u>
Total major asset events	<u>\$35.5</u>

Construction in progress at the end of FY 2005 included additional CSO abatement projects, continued renovation of E. C. Glass High School, renovation of the Abert Water Plant facility, water tank rehabilitation projects, Airport taxiway and runway rehabilitation projects and a variety of other building, street, bridge, water, sewer and recreation projects. Additional information on the City's capital assets can be found in Note 8 of this report.

### **Long-term Debt**

Total outstanding debt was \$238 million, with \$125.4 million of business-type activities debt supported by the individual funds, resulting in net bonded debt for governmental activities of \$112.6 million. Capital leases of \$1.6 million for the regional radio system joint venture and \$6.2 million for the human services facility were included, while liabilities for compensated absences and workers' compensation of \$4.6 million, and landfill closure liability of \$2.8 million were excluded.

#### ***Long-term Debt Obligations As of June 30, 2005/2004 (in millions)***

	Governmental Activities		Business-type Activities		Total Primary Government		Percentage Change
	2005	2004	2005	2004	2005	2004	2005-2004
General Obligation Bonds	\$ 94.0	\$ 100.3	\$ 61.9	\$ 66.9	\$ 155.9	\$ 167.2	-6.76%
Revenue Bonds	-	-	63.5	59.2	63.5	59.2	7.26%
Literary Bonds	0.1	0.2	-	-	0.1	0.2	-50.00%
General Obligation Notes	7.5	7.5	-	-	7.5	7.5	0.00%
Note Payable	3.2	3.2	-	-	3.2	3.2	0.00%
Capital Lease	7.8	8.4	-	-	7.8	8.4	-7.14%
Total	<u>\$112.6</u>	<u>\$119.6</u>	<u>\$125.4</u>	<u>\$126.1</u>	<u>\$238.0</u>	<u>\$245.7</u>	<u>-3.13%</u>

Total new debt of \$45.3 million was issued, of which \$26.8 million was for governmental activities and \$18.5 million was for business-type activities.

The City retired \$52.8 million of outstanding principal, which included refunded debt of \$37.7 million and \$15.1 million of planned retirements. The refunded debt consisted of \$16.9 million for governmental activities and \$20.8 million for business-type activities. The planned retirements were \$7.5 million for governmental activities and \$7.6 million for business-type activities.

Business-type activities new long-term debt of \$6.7 million was issued from the Virginia Revolving Loan Program (VRL) for sewer capital projects. The City issued \$33.1 million in general obligation refunding bonds consisting of \$21.3 million for governmental activities and \$11.8 million for business-type activities. These bonds advance refunded \$32.2 million of four outstanding general obligation bond series. The refunded bonds consisted of \$20.8 million for governmental activities and \$11.4 million for business-type activities. Additionally, the City issued \$3.8 million in taxable general obligation refunding bonds to advance refund \$3.5 million of taxable general obligation bonds for the Schools. Lastly, the City has a 33.1% share in a regional radio system joint venture originally financed by a lease revenue bond in 1996. The City participated in a current refunding of a \$5.1 million lease revenue note (City share-\$1.7 million) to redeem the \$5.9 million outstanding balance of the lease revenue bond (City share-\$2.0 million).

The City's general obligation bonds continued to maintain an Aa3 rating from Moody's Investors Service, an AA rating from Standard and Poor's Rating Service and an AA rating from Fitch Investors. A City Council-adopted policy provides that tax-supported debt should not exceed 5% of net assessed valuation of taxable property in the City. As of the end of FY 2005, outstanding tax-supported debt was 2.57% of net assessed valuation. Detailed information on the City's long-term debt is included in Note 9 to this report.

## ECONOMIC FACTORS

The City's unemployment rate for June 2005 was 5.2%, which was 15% less than the same period in FY 2004. This compares to the state's unemployment rate of 3.7% and the national average rate of 4.9% for June 2005.

The City is a regional commercial center and continues to experience modest retail sector growth and the addition of national and regional restaurant chains in its primary commercial corridor. The City experienced tax growth in the areas of sales, meals, business licenses and franchise taxes.

Economic development initiatives included supporting the continued development of public and private industrial parks, the creation of two Technology Zones coincident with existing Enterprise Zones, and the use of various targeted incentives including subsidized land and infrastructure and cash grants. Several businesses and industries expanded facilities and operations resulting in private investments of \$17 million and 331 new jobs. Additionally, the City, in partnership with Campbell County, began developing an Airport Commerce Park with 252 total acres adjacent to Lynchburg Regional Airport.

A number of public private redevelopment efforts are underway in the downtown business district. Altogether, nearly \$100 million will be invested between 2001 and 2006 to renovate existing historical structures, build new facilities and improve public infrastructure, parks and streetscapes. Riverviews Artspace, a renovated historic shoe factory, remained a fully occupied complex providing residential condominiums, art space and retail operations. Construction continued on new lodging, dining and meeting facilities to be provided in two restored buildings known as the BluffWalk Center. With completion expected in late calendar 2006, the complex will include a forty-three room boutique hotel, conference center, casual restaurant, and microbrewery. Another project completion in December 2004 was the Phase One opening of a part of the Academy of Fine Arts. Government projects included completion a new \$14 million federal complex in early 2005. The complex houses the federal courts, post office, and other federal departments such as the U.S. Marshall Service, the Federal Bureau of Investigations (FBI), and the Internal Revenue Service (IRS). The Ninth Street Corridor and Monument Terrace Grand Staircase landmark projects were completed with a "Ninth Street Celebration" event in September 2004 to mark the official opening of the corridor. Also located downtown, the restoration of the City's Old Courthouse Museum was completed in early 2005. A limited partnership managed this project and the utilization of state historic tax credits reduced its cost.

For FY 2006, the adopted General Fund Budget included funding for a 1% compensation adjustment for City employees and an 8%, or \$2.3 million, increase in the local appropriation to the Schools. In addition, the budget set aside \$507,000 in one-time funds to start a performance based pay initiative in accordance with the Compensation Philosophy adopted by City Council in November 2003. Subsequent City Council action provided for an additional 2% increase allocated as 1% for the compensation adjustment and 1% for the performance based pay initiative to be effective January 1, 2006 rather than July 1, 2005. In addition, the Lynchburg City School Board approved a 5% compensation adjustment for Schools employees. Other than the 4% rate increases for water and sewer services noted previously, there were no additional increases in tax rates or fees.

Although the City's Solid Waste Management and Water Funds achieved or exceeded City Council's financial policy targets, the Sewer Fund continued to be financially challenged to meet the targets. Adopted financial policies require rate reviews a minimum of every two years for the Solid Waste Management, Water and Sewer Funds. Typically, rates for the Water and Sewer Funds are reviewed annually with necessary changes implemented at the beginning of each fiscal year. The 4% water and sewer volume rates were the only increases in FY 2006. Because of FY 2003 City Council action, the Solid Waste Management Fund maintained a strong financial condition with no rate or fee increases.

## **REQUESTS FOR INFORMATION**

This report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Financial Services, City of Lynchburg, 900 Church Street, Lynchburg, VA. 24504; or, via telephone at 434-455-4220. This report is on the City's web site at [www.lynchburgva.gov](http://www.lynchburgva.gov).

## **BASIC FINANCIAL STATEMENTS**

**Statement of Net Assets**  
**June 30, 2005**

	<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Total Primary Government</b>	<b>Component Units</b>		<b>Total Reporting Unit</b>
				<b>Schools</b>	<b>Other</b>	
<b>Assets</b>						
Cash and cash equivalents	\$ 18,860,328	\$ 16,728,683	\$ 35,589,011	\$ 12,583,163	\$ 869,737	\$ 49,041,911
Investments	10,582,070	7,927,619	18,509,689	-	-	18,509,689
Receivables, net	6,966,014	3,878,174	10,844,188	289,668	448,909	11,582,765
Due from primary government	-	-	-	-	16,716	16,716
Due from other governments	6,812,042	12,183,575	18,995,617	2,282,201	455,385	21,733,203
Internal balances	1,929,786	(1,929,786)	-	-	-	-
Due from component unit	4,048,017	-	4,048,017	-	-	4,048,017
Inventory	125,825	384,364	510,189	63,183	142,707	716,079
Prepays and other assets	3,277,531	-	3,277,531	-	37,754	3,315,285
Restricted assets:						
Cash and cash equivalents	722,670	312,275	1,034,945	244,267	-	1,279,212
Due from other governments	-	5,474,090	5,474,090	-	-	5,474,090
Deferred debt charges	1,952,538	1,665,298	3,617,836	-	-	3,617,836
Capital assets, net of accumulated depreciation:						
Land and improvements	14,577,820	9,713,353	24,291,173	-	63,152	24,354,325
Buildings and improvements	95,817,532	22,264,923	118,082,455	-	517,204	118,599,659
Machinery and equipment	14,438,708	4,193,061	18,631,769	2,033,916	3,504,507	24,170,192
Construction in progress	13,163,697	25,885,221	39,048,918	-	-	39,048,918
Infrastructure	111,152,199	170,767,451	281,919,650	-	-	281,919,650
<b>Total assets</b>	<b>304,426,777</b>	<b>279,448,301</b>	<b>583,875,078</b>	<b>17,496,398</b>	<b>6,056,071</b>	<b>607,427,547</b>
<b>Liabilities</b>						
Accounts payable and other liabilities	10,605,649	2,576,603	13,182,252	8,780,743	1,193,588	23,156,583
Accrued interest payable	869,102	667,452	1,536,554	-	-	1,536,554
Due to primary government	-	-	-	3,893,017	155,000	4,048,017
Due to other governments	56,635	-	56,635	-	-	56,635
Deferred revenue	-	-	-	129,000	-	129,000
Liabilities payable from restricted assets	150,359	312,275	462,634	-	-	462,634
Noncurrent liabilities						
Due within one year	15,460,519	7,557,283	23,017,802	724,137	-	23,741,939
Due in more than one year	102,981,446	122,172,198	225,153,644	2,066,802	180,000	227,400,446
<b>Total liabilities</b>	<b>130,123,710</b>	<b>133,285,811</b>	<b>263,409,521</b>	<b>15,593,699</b>	<b>1,528,588</b>	<b>280,531,808</b>
<b>Net assets</b>						
Invested in capital assets, net of related debt	140,548,447	119,234,122	259,782,569	177,879	4,081,223	264,041,671
Restricted net assets	-	-	-	-	6,186	6,186
Unrestricted	33,754,620	26,928,368	60,682,988	1,724,820	440,074	62,847,882
<b>Total net assets</b>	<b>\$ 174,303,067</b>	<b>\$ 146,162,490</b>	<b>\$ 320,465,557</b>	<b>\$ 1,902,699</b>	<b>\$ 4,527,483</b>	<b>\$ 326,895,739</b>

The Notes to Financial Statements are an integral part of this statement.

Statement of Activities  
For the Fiscal Year Ended June 30, 2005

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets									
	Program Revenues			Primary Government			Component Units			Total Reporting Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Schools	Other	
Primary government activities:										
General government	\$ 10,120,602	\$ 401,099	\$ 325,609	\$ -	\$ (9,393,894)	\$ -	\$ (9,393,894)	\$ -	\$ -	\$ (9,393,894)
Judicial	4,717,917	620,348	3,096,557	-	(1,001,012)	-	(1,001,012)	-	-	(1,001,012)
Public safety	35,823,077	3,185,126	3,049,934	-	(29,588,017)	-	(29,588,017)	-	-	(29,588,017)
Public works	18,764,769	140,291	7,917,326	763,809	(9,943,343)	-	(9,943,343)	-	-	(9,943,343)
Health and human services	21,328,976	2,386,199	12,887,560	-	(6,055,217)	-	(6,055,217)	-	-	(6,055,217)
Cultural and recreational	8,195,390	1,675,398	218,661	79,385	(6,221,946)	-	(6,221,946)	-	-	(6,221,946)
Community development	6,375,560	693,244	2,421,486	-	(3,260,830)	-	(3,260,830)	-	-	(3,260,830)
Education	28,638,013	-	10,492	3,276,446	(25,351,075)	-	(25,351,075)	-	-	(25,351,075)
Interest payments and other fiscal charges	4,634,912	-	-	-	(4,634,912)	-	(4,634,912)	-	-	(4,634,912)
Insurance costs	192,828	-	-	-	(192,828)	-	(192,828)	-	-	(192,828)
Total governmental activities	138,792,044	9,101,705	29,927,625	4,119,640	(95,643,074)	-	(95,643,074)	-	-	(95,643,074)
Business-type activities:										
Solid Waste Management	5,794,660	6,985,739	199,638	-	-	1,390,717	1,390,717	-	-	1,390,717
Airport	3,405,121	1,637,730	73,035	1,502,260	-	(192,096)	(192,096)	-	-	(192,096)
Water	8,743,519	9,488,676	-	208,868	-	954,025	954,025	-	-	954,025
Sewer	11,800,236	14,682,219	38,500	3,851,205	-	6,771,688	6,771,688	-	-	6,771,688
Total business-type activities	29,743,536	32,794,364	311,173	5,562,333	-	8,924,334	8,924,334	-	-	8,924,334
Total primary government	\$ 168,535,580	\$ 41,896,069	\$ 30,238,798	\$ 9,681,973	(95,643,074)	8,924,334	(86,718,740)	-	-	(86,718,740)
Component units:										
Schools	\$ 77,823,826	\$ 1,598,899	\$ 48,864,090	-	-	-	(27,360,837)	-	-	(27,360,837)
Greater Lynchburg Transit Company	4,702,134	924,131	2,716,283	787,648	-	-	(274,072)	-	-	(274,072)
Business Development Centre	404,149	266,942	174,638	-	-	-	37,431	-	-	37,431
Total component units	\$ 82,930,109	\$ 2,789,972	\$ 51,755,011	\$ 787,648	-	-	(236,641)	-	-	(27,597,478)
General revenues:										
Property taxes					49,831,096	-	49,831,096	-	-	49,831,096
Local sales and use taxes					12,221,811	-	12,221,811	-	-	12,221,811
Meals taxes					8,666,117	-	8,666,117	-	-	8,666,117
Consumer utility taxes					8,397,849	-	8,397,849	-	-	8,397,849
Business license taxes					7,032,917	-	7,032,917	-	-	7,032,917
Other taxes					6,096,139	-	6,096,139	-	-	6,096,139
Unrestricted intergovernmental					8,405,457	-	8,405,457	-	-	8,405,457
Interest					954,317	582,522	1,536,839	2,689	-	1,539,528
Miscellaneous					1,090,845	105,329	1,196,174	534,745	94,834	1,825,753
Loss on sale of assets					(705,032)	(363,989)	(1,069,021)	(8,986)	(14,753)	(1,092,760)
City appropriation					-	-	-	27,125,060	-	27,125,060
Transfers					(469,136)	469,136	-	-	-	-
Total general revenues and transfers					101,522,380	792,998	102,315,378	27,653,508	80,081	130,048,967
Changes in net assets					5,879,306	9,717,332	15,596,638	292,671	(156,560)	15,732,749
Net assets - beginning, as restated (Note 19)					168,423,761	136,445,158	304,868,919	1,610,028	4,684,043	311,162,990
Net assets - ending					\$ 174,303,067	\$ 146,162,490	\$ 320,465,557	\$ 1,902,699	\$ 4,527,483	\$ 326,895,739

The Notes to Financial Statements are an integral part of this statement.

**Balance Sheet**  
**Governmental Funds**  
**June 30, 2005**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 8,830,559	\$ 9,439,805	\$ 18,270,364
Investments	10,582,070	-	10,582,070
Receivables, net of allowance			
Taxes excluding penalties	1,187,403	-	1,187,403
Accounts	5,153,047	-	5,153,047
Other	148,439	464,037	612,476
Due from other funds	1,859,954	870	1,860,824
Due from component units	3,893,017	155,000	4,048,017
Due from other governments	3,965,357	2,846,685	6,812,042
Other assets	77,318	213	77,531
Restricted assets:			
Cash and cash equivalents	152,327	570,343	722,670
<b>Total assets</b>	<u>\$ 35,849,491</u>	<u>\$ 13,476,953</u>	<u>\$ 49,326,444</u>
<b>Liabilities and fund balances</b>			
Liabilities:			
Accounts payable	\$ 2,016,745	\$ 3,225,831	\$ 5,242,576
Accrued liabilities	4,464,172	18,440	4,482,612
Retainage payable	8,592	687,738	696,330
Due to other governments	90,709	81,152	171,861
Due to other funds	29,640	1,578,037	1,607,677
Deposits payable from restricted assets	150,359	-	150,359
Deferred revenue	2,601,129	81,252	2,682,381
<b>Total liabilities</b>	<u>9,361,346</u>	<u>5,672,450</u>	<u>15,033,796</u>
Fund balances:			
Reserved for:			
Encumbrances	1,131,403	6,941,128	8,072,531
Unreserved:			
Designated	7,854,075	-	7,854,075
Undesignated	17,502,667	-	17,502,667
Unreserved, reported in special revenue			
Designated	-	591,735	591,735
Undesignated	-	2,872,279	2,872,279
Unreserved, reported in capital projects			
Undesignated	-	(2,600,639)	(2,600,639)
<b>Total fund balances</b>	<u>26,488,145</u>	<u>7,804,503</u>	<u>34,292,648</u>
<b>Total liabilities and fund balances</b>	<u>\$ 35,849,491</u>	<u>\$ 13,476,953</u>	<u>\$ 49,326,444</u>

The Notes to Financial Statements are  
an integral part of this statement.

**Reconciliation of the Balance Sheet of Governmental Funds  
to the Statement of Net Assets  
June 30, 2005**

Amounts reported for governmental activities in the statement of net assets are different because:

Ending fund balance - governmental funds		\$ 34,292,648
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Capital assets	249,149,956	
Less: Internal service capital assets	<u>(11,165,445)</u>	
		237,984,511
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		5,882,381
Internal service funds activity that has been allocated to the user departments.		1,697,016
Internal service funds are used by management to charge the costs of vehicle maintenance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		10,183,517
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Bonds payable	(101,329,779)	
Accrued interest payable	(869,102)	
Capital leases payable	(7,747,458)	
Notes Payable	(3,200,000)	
Compensated absences	(3,702,106)	
Workers' compensation	<u>(241,663)</u>	
	(117,090,108)	
Add back: Internal Service bonds payable	1,305,000	
Add back: Internal Service accrued interest payable	15,837	
Add back: Internal Service compensated absences	<u>32,265</u>	<u>(115,737,006)</u>
Net assets of governmental activities		<u>\$ 174,303,067</u>

The Notes to Financial Statements are  
an integral part of this statement.

**Statement of Revenues, Expenditures, and  
Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2005**

	<b>General</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>			
Taxes	\$ 91,739,497	\$ 993,905	\$ 92,733,402
Regulatory licenses, permits and privilege fees	635,880	-	635,880
Intergovernmental	27,321,323	12,744,962	40,066,285
Fines and forfeitures	552,797	-	552,797
Revenue from use of money and property	1,373,658	862,784	2,236,442
Charges for services	6,442,510	3,525,629	9,968,139
Miscellaneous	955,066	925,766	1,880,832
	<u>129,020,731</u>	<u>19,053,046</u>	<u>148,073,777</u>
<b>Expenditures</b>			
Current operating expenditures			
General government	12,499,485	273,295	12,772,780
Judicial	3,536,008	1,037,223	4,573,231
Public safety	31,113,303	4,066,567	35,179,870
Public works	10,616,660	5,730,367	16,347,027
Health and human services	15,744,061	5,139,021	20,883,082
Cultural and recreational	6,466,171	1,304,747	7,770,918
Community development	3,874,987	2,477,224	6,352,211
Education	27,125,060	589,209	27,714,269
Capital outlay			
Capital general government	-	13,049,200	13,049,200
Debt service			
Principal retirements	7,024,174	407,436	7,431,610
Interest payments and other fiscal charges	4,246,388	338,606	4,584,994
Issuance costs	161,433	31,393	192,826
	<u>122,407,730</u>	<u>34,444,288</u>	<u>156,852,018</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>6,613,001</u>	<u>(15,391,242)</u>	<u>(8,778,241)</u>
<b>Other financing sources (uses)</b>			
Issuance of refunding bonds	24,393,868	1,929,059	26,322,927
Issuance of refunding capital lease	-	1,679,825	1,679,825
Payments to escrow agent	(24,152,140)	(3,911,587)	(28,063,727)
Capital contributions	-	1,938,525	1,938,525
Transfers in	994,616	3,736,489	4,731,105
Transfers out	(5,182,642)	(1,367,600)	(6,550,242)
	<u>(3,946,298)</u>	<u>4,004,711</u>	<u>58,413</u>
<b>Net changes in fund balances</b>	<u>2,666,703</u>	<u>(11,386,531)</u>	<u>(8,719,828)</u>
<b>Fund balances - beginning, as restated (Note 19)</b>	<u>23,821,442</u>	<u>19,191,034</u>	<u>43,012,476</u>
<b>Fund balances - ending</b>	<u>\$ 26,488,145</u>	<u>\$ 7,804,503</u>	<u>\$ 34,292,648</u>

The Notes to Financial Statements are an integral part of this statement.

**Reconciliation of the Statement of Revenues, Expenditures, and Changes  
in Fund Balance to the Statement of Activities  
For the Fiscal Year Ended June 30, 2005**

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Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds \$ (8,719,828)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the detail of the two components.

Capital outlay	17,819,543
Depreciation expense	(10,002,384)

The net effect of various transactions involving capital assets (sales, reduction in construction in progress, donated assets) is to decrease net assets.	(535,601)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(551,993)
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related accounts.	7,407,444
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(14,178)
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To eliminate transfers to the internal service fund	1,350,000
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The net loss of certain activities of the internal service fund is reported with governmental activities.	(873,697)
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Change in net assets of governmental activities.	<u>\$ 5,879,306</u>
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**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2005**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 88,964,483	\$ 90,251,035	\$ 91,739,497	\$ 1,488,462
Regulatory licenses, permits and privilege fees	813,086	594,855	635,880	41,025
Intergovernmental	27,652,646	28,068,029	27,321,323	(746,706)
Fines and forfeitures	550,000	520,000	552,797	32,797
Revenue from use of money and property	1,062,790	1,063,247	1,373,658	310,411
Charges for services	7,955,224	8,082,934	6,442,510	(1,640,424)
Miscellaneous	570,583	860,095	955,066	94,971
Total revenues	127,568,812	129,440,195	129,020,731	(419,464)
<b>Expenditures</b>				
Current Operating Expenditures				
General government	12,576,295	12,540,073	12,499,485	40,588
Judicial	3,502,027	3,645,469	3,536,008	109,461
Public safety	30,294,172	31,580,402	31,113,303	467,099
Public works	11,025,899	11,255,822	10,616,660	639,162
Health and human services	15,110,363	16,360,375	15,744,061	616,314
Cultural and recreational	6,820,499	6,982,486	6,466,171	516,315
Community development	2,721,941	3,900,429	3,874,987	25,442
Education	-	31,018,077	27,125,060	3,893,017
Debt Service				
Principal retirements	6,492,510	6,716,658	7,024,174	(307,516)
Interest payments and other fiscal charges	4,480,255	4,720,470	4,246,388	474,082
Issuance Costs	-	169,235	161,433	7,802
Total expenditures	93,023,961	128,889,496	122,407,730	6,481,766
<b>Excess (deficiency) of revenues over (under) expenditures</b>	34,544,851	550,699	6,613,001	6,062,302
<b>Other financing sources and uses</b>				
Issuance of bonds	-	342,737	-	(342,737)
Issuance of refunding bonds	-	24,469,468	24,393,868	(75,600)
Payments to escrow agent	-	(24,152,140)	(24,152,140)	-
Transfers in	1,042,176	994,616	994,616	-
Transfers out	(33,428,728)	(5,299,783)	(5,182,642)	117,141
Total other financing sources and uses	(32,386,552)	(3,645,102)	(3,946,298)	(301,196)
<b>Net changes in fund balances</b>	2,158,299	(3,094,403)	2,666,703	5,761,106
<b>Fund balances - beginning, as restated (Note 19)</b>	23,821,442	23,821,442	23,821,442	-
<b>Fund balances - ending</b>	\$ 25,979,741	\$ 20,727,039	\$ 26,488,145	\$ 5,761,106

The Notes to Financial Statements are  
an integral part of this statement.

**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2005**

	Enterprise Funds					
	Solid Waste Management	Water	Sewer	Airport	Total	Internal Service
<b>Assets</b>						
Current assets						
Cash and cash equivalents	\$ 4,422,157	\$ 5,098,997	\$ 5,917,085	\$ 1,290,444	\$ 16,728,683	\$ 589,964
Investments	5,940,209	995,100	992,310	-	7,927,619	-
Receivables, net of allowance						
Accounts	791,670	1,075,706	1,774,946	90,754	3,733,076	-
Other	-	6,334	95,890	42,874	145,098	13,088
Due from other funds	-	29,169	-	-	29,169	-
Due from other governments	-	-	518,452	35,586	554,038	-
Inventory	-	384,364	-	-	384,364	125,825
Due from members - Regional Sewage Treatment Plant	-	-	384,746	-	384,746	-
Total current assets	11,154,036	7,589,670	9,683,429	1,459,658	29,886,793	728,877
Noncurrent assets						
Due from other governments	-	-	11,244,791	-	11,244,791	-
Due from members - Regional Sewage Treatment Plant	-	-	5,474,090	-	5,474,090	-
Restricted assets:						
Cash and cash equivalents	-	312,275	-	-	312,275	-
Deferred debt charges	286,738	585,248	726,234	67,078	1,665,298	-
Capital assets, net of accumulated depreciation:	8,421,196	48,366,638	151,659,770	24,376,405	232,824,009	11,165,445
Total noncurrent assets	8,707,934	49,264,161	169,104,885	24,443,483	251,520,463	11,165,445
<b>Total assets</b>	19,861,970	56,853,831	178,788,314	25,903,141	281,407,256	11,894,322
<b>Liabilities</b>						
Current liabilities						
Accounts payable	138,829	746,664	1,201,908	83,736	2,171,137	334,427
Accrued liabilities	99,250	247,952	368,470	31,798	747,470	21,061
Retainage payable	-	96,271	271,598	-	367,869	-
Due to other governments	10	1,623	856	-	2,489	-
Due to other funds	57,632	101,798	68,341	34,167	261,938	20,378
Current portion of general obligation bonds	1,013,551	1,523,091	2,210,090	297,275	5,044,007	120,000
Current portion of public utility revenue bonds	-	-	2,435,977	-	2,435,977	-
Current portion of landfill post closure liability	32,395	-	-	-	32,395	-
Total current liabilities	1,341,667	2,717,399	6,557,240	446,976	11,063,282	495,866
Noncurrent liabilities						
Deposits payable from restricted assets	-	312,275	-	-	312,275	-
Self insurance claims	281	16,087	3,264	-	19,632	-
Compensated absences	80,169	151,116	87,930	43,208	362,423	29,939
General obligation bonds	5,422,517	21,661,306	28,722,912	2,123,277	57,930,012	1,185,000
Public utility revenue bonds	-	-	61,089,980	-	61,089,980	-
Landfill closure and post closure liability	2,770,146	-	-	-	2,770,146	-
Total noncurrent liabilities	8,273,113	22,140,784	89,904,086	2,166,485	122,484,468	1,214,939
<b>Total liabilities</b>	9,614,780	24,858,183	96,461,326	2,613,461	133,547,750	1,710,805
<b>Net Assets</b>						
Invested in capital assets, net of related debt	2,271,866	25,767,489	69,171,836	22,022,931	119,234,122	9,860,445
Unrestricted	7,975,324	6,228,159	13,155,152	1,266,749	28,625,384	323,072
<b>Total net assets</b>	\$ 10,247,190	\$ 31,995,648	\$ 82,326,988	\$ 23,289,680	\$ 147,859,506	\$ 10,183,517
<b>Reconciliation with business type activities in the statement of net assets:</b>						
Internal service fund activity is eliminated for the statement of activities, with residual activity allocated to user departments					(1,697,016)	
<b>Total net assets of business type activities</b>					\$ 146,162,490	

The Notes to Financial Statements are an integral part of this statement.

**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2005**

	Enterprise Funds					Internal Services
	Solid Waste Management	Water	Sewer	Airport	Total	
<b>Operating revenues</b>						
Charges for services and other operating revenues	\$ 6,985,739	\$ 9,488,676	\$ 14,682,219	\$ 1,637,730	\$ 32,794,364	\$ 1,943,221
Intergovernmental	-	-	-	71,309	71,309	-
Total operating revenues	6,985,739	9,488,676	14,682,219	1,709,039	32,865,673	1,943,221
<b>Operating expenses</b>						
Personal services and benefits	1,704,262	2,830,609	1,894,076	1,009,935	7,438,882	600,905
Operation and maintenance	481,135	1,120,155	1,684,070	424,166	3,709,526	1,245,150
Supplies and materials	735,989	650,421	773,012	88,525	2,247,947	57,067
Administration	1,046,949	1,318,927	1,744,083	191,387	4,301,346	1,494
Landfill closure and postclosure care	147,355	-	-	-	147,355	-
Other charges	68,429	48,269	23,902	19,803	160,403	22,411
Depreciation	836,599	1,743,936	3,777,969	1,546,691	7,905,195	1,662,061
Total operating expenses	5,020,718	7,712,317	9,897,112	3,280,507	25,910,654	3,589,088
<b>Operating income (loss)</b>	1,965,021	1,776,359	4,785,107	(1,571,468)	6,955,019	(1,645,867)
<b>Nonoperating revenues (expenses)</b>						
Interest income	193,886	123,527	248,236	16,873	582,522	4,647
Governmental grants	199,638	-	38,500	1,726	239,864	-
Passenger facility charges	-	-	-	256,800	256,800	-
Miscellaneous	67,665	26,984	5,157	5,523	105,329	143,490
Gain (loss) on disposition of assets	(49,893)	(8,422)	(305,674)	-	(363,989)	(6,930)
Interest on long-term debt	(303,528)	(963,889)	(1,777,877)	(107,691)	(3,152,985)	(48,935)
Total nonoperating revenues (expenses)	107,768	(821,800)	(1,791,658)	173,231	(2,332,459)	92,272
<b>Income (loss) before contributions and transfers</b>	2,072,789	954,559	2,993,449	(1,398,237)	4,622,560	(1,553,595)
Capital contributions	-	208,868	3,851,205	1,245,460	5,305,533	-
Transfers in	732,529	-	-	419,980	1,152,509	1,350,000
Transfers out	(371,855)	(147,123)	(164,394)	-	(683,372)	-
<b>Change in net assets</b>	2,433,463	1,016,304	6,680,260	267,203	10,397,230	(203,595)
<b>Total net assets - beginning, as restated (Note19)</b>	7,813,727	30,979,344	75,646,728	23,022,477	137,462,276	10,387,112
<b>Total net assets - ending</b>	<u>\$ 10,247,190</u>	<u>\$ 31,995,648</u>	<u>\$ 82,326,988</u>	<u>\$ 23,289,680</u>	<u>\$ 147,859,506</u>	<u>\$ 10,183,517</u>
<b>Reconciliation with business type activities in the statement of activities:</b>						
Change in net assets - enterprise funds reports in this statement					10,397,230	
Internal service fund activity is eliminated for the statement of activities, with residual activity allocated to user departments					(679,898)	
<b>Change in net assets of business-type activities:</b>					<u>\$ 9,717,332</u>	

The Notes to Financial Statements are an integral part of this statement.

Statement of Cash Flows  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2005

	Enterprise Funds					Internal Service
	Solid Waste Management	Water	Sewer	Airport	Total	
<b>OPERATING ACTIVITIES</b>						
Cash received from operations	\$ 7,006,913	\$ 9,567,842	\$ 14,717,691	\$ 1,658,770	\$ 32,951,216	\$ 1,953,554
Cash paid to employees	(1,711,237)	(2,796,399)	(1,875,083)	(1,031,217)	(7,413,936)	(599,914)
Cash paid to suppliers	(2,305,904)	(3,133,297)	(3,845,388)	(1,217,156)	(10,501,745)	(1,427,164)
Net cash provided by (used in) operating activities	2,989,772	3,638,146	8,997,220	(589,603)	15,035,535	(73,524)
<b>NONCAPITAL FINANCING ACTIVITIES</b>						
Transfers to other funds	(371,855)	(152,909)	(164,394)	-	(689,158)	-
Transfers from other funds	732,529	185,928	-	419,980	1,338,437	1,350,000
Net cash provided by (used in) noncapital financing activities	360,674	33,019	(164,394)	419,980	649,279	1,350,000
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Proceeds from issuance of long-term debt:						
General obligation bonds	1,020,442	5,081,030	5,895,112	417,117	12,413,701	-
Payment of long-term debt:						
General obligation bonds	(2,167,010)	(6,518,691)	(8,112,770)	(744,350)	(17,542,821)	(120,000)
Revenue bonds	-	-	(2,326,436)	-	(2,326,436)	-
Drawdowns of public utility revenue bonds - revolving loan funds	-	-	2,654,072	-	2,654,072	-
Payment of interest on long-term debt	(311,658)	(1,001,811)	(1,023,359)	(109,120)	(2,445,948)	(50,733)
Capital contributions received	-	-	3,889,161	1,888,260	5,777,421	-
Intergovernmental grants	199,638	208,868	38,500	-	447,006	-
Passenger Facility charges collected	-	-	-	256,800	256,800	-
Proceeds from sale of capital assets	-	-	-	-	-	96,958
Additions to capital assets	(1,999)	(4,214,437)	(9,717,359)	(1,126,951)	(15,060,746)	(2,422,072)
Proceeds from other organizations	67,665	103,860	23,255	89,909	284,689	131,462
Net cash provided by (used in) capital and related financing activities	(1,192,922)	(6,341,181)	(8,679,824)	671,665	(15,542,262)	(2,364,385)
<b>INVESTING ACTIVITIES</b>						
Net purchase of investments	(2,943,633)	5,318	8,108	-	(2,930,207)	-
Interest income received	193,886	123,527	248,236	16,873	582,522	4,647
Net cash provided by investing activities	193,886	123,527	248,236	16,873	582,522	4,647
Net increase (decrease) in cash and cash equivalents	2,351,410	(2,546,489)	401,238	518,915	725,074	(1,083,262)
<b>CASH AND CASH EQUIVALENTS</b>						
Beginning	5,014,380	7,952,443	5,507,739	771,529	19,246,091	1,673,226
Ending	\$ 7,365,790	\$ 5,405,954	\$ 5,908,977	\$ 1,290,444	\$ 19,971,165	\$ 589,964
<b>Reconciliation to Statement of Net Assets</b>						
Current assets	\$ 4,422,157	\$ 5,098,997	\$ 5,917,085	\$ 1,290,444	\$ 16,728,683	\$ 589,964
Restricted assets	-	312,275	-	-	312,275	-
	\$ 4,422,157	\$ 5,411,272	\$ 5,917,085	\$ 1,290,444	\$ 17,040,958	\$ 589,964

The Notes to Financial Statements are an integral part of this statement.

CITY OF LYNCHBURG, VIRGINIA

EXHIBIT 10  
(Concluded)

Statement of Cash Flows  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2005

	Enterprise Funds					
	Solid Waste Management	Water	Sewer	Airport	Total	Internal Service
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED FROM (USED IN) OPERATING ACTIVITIES						
Operating income (loss)	\$ 1,965,021	\$ 1,776,359	\$ 4,785,107	\$ (1,571,468)	\$ 6,955,019	\$ (1,645,867)
Adjustments to reconcile operating income (loss) to net cash provided from (used in) operating activities:						
Depreciation	836,599	1,743,936	3,777,969	1,546,691	7,905,195	1,662,061
Amortization of debt related items	25,734	81,673	135,962	5,040	248,409	-
Landfill closure and postclosure cost	147,355	-	-	-	147,355	-
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	21,174	79,166	35,472	(50,269)	85,543	10,333
Increase in inventory	-	(15,848)	-	-	(15,848)	(34,952)
Increase (decrease) in trade accounts payable	1,225	(3,548)	242,961	(498,315)	(257,677)	(66,090)
Increase (decrease) in accrued expenses	1,266	(47,463)	18,317	(21,097)	(48,977)	1,612
Increase in due to other funds	(8,241)	-	676	(185)	(7,750)	(621)
Increase (decrease) in due to other governments	(361)	(1,537)	756	-	(1,142)	-
Increase (decrease) in deposits payable	-	25,408	-	-	25,408	-
Net cash provided from (used in) operating activities	\$ 2,989,772	\$ 3,638,146	\$ 8,997,220	\$ (589,603)	\$ 15,035,535	\$ (73,524)
SUPPLEMENTAL CASH FLOW INFORMATION						
NON-CASH TRANSACTIONS						
Capitalized interest	\$ -	\$ 94,192	\$ 62,139	\$ -	\$ 156,331	\$ -
Capital asset additions financed by retainage payable	-	96,271	271,598	-	367,869	-
Undrawn public utility revenue bond proceeds	-	-	4,045,928	-	-	-

The Notes to Financial Statements are an integral part of this statement.

**Statement of Fiduciary Net Assets**  
**Agency Funds**  
**June 30, 2005**

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**Assets**

Cash and cash equivalents	\$ 156,427
Restricted assets:	
Cash and cash equivalents	<u>47,938</u>
<b>Total assets</b>	<u>204,365</u>

**Liabilities**

Accounts payable	165
Amounts held for others	<u>204,200</u>
<b>Total liabilities</b>	<u>204,365</u>

**Net Assets**

\$ -
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The Notes to Financial Statements are  
an integral part of this statement.

## CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2005

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### **Note 1. Summary of Significant Accounting Policies**

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#### **A. Financial Reporting Entity**

The City of Lynchburg, Virginia (the "City") was founded by John Lynch in 1757, chartered as a town in 1786, and incorporated in 1805. The City operates on a Council-Manager form of Government and provides all municipal services to its residents. As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Discretely Presented Component Units: The component units' columns in the combined financial statements include the data of the City's three component units. They are reported in separate columns to emphasize that they are legally separate from the City. The governing bodies of these component units are appointed by City Council.

Lynchburg City Schools: The Lynchburg City Schools (the "Schools") operates one pre-school, eleven elementary, three middle schools and two high schools in the City. The Schools are fiscally dependent on the City because the Schools' operational and capital budgets are funded approximately 50% by the City. In addition, the Schools are prohibited from issuing bonded debt without approval of City Council.

Business Development Centre, Inc.: The Business Development Centre, Inc. (the "Centre") provides business advisory services to small businesses in the Central Virginia area, operates a business incubator, and provides financing for qualifying businesses under certain federal programs. The City provides financial support to the Centre by leasing to the Centre, at a nominal amount, the facility which houses the Centre's operations. The City has agreed to advance operating funds to the Centre to cover working capital needs.

Greater Lynchburg Transit Company: The Greater Lynchburg Transit Company ("GLTC") provides mass transit services to the area. The City provides financial support to GLTC through the assumption of the obligation to finance GLTC's deficits.

Complete financial statements of the individual component units can be obtained directly from their administrative offices at the addresses listed below. The Lynchburg City Schools financial statements are not separately prepared, but are included in this financial report.

Business Development Centre, Inc.  
147 Mill Ridge Road  
Lynchburg, Virginia 24502

Greater Lynchburg Transit Company  
Post Office Box 797  
Lynchburg, Virginia 24505-0797

## CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2005

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### Note 1. Summary of Significant Accounting Policies (Continued)

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#### **A. Financial Reporting Entity (Continued)**

Jointly Governed Organizations: The following entities are excluded from the accompanying financial statements:

Blue Ridge Regional Jail Authority: The Blue Ridge Regional Jail Authority (the “Authority”) was created by certain Member Jurisdictions for the purpose of developing and operating a regional jail system to be established by acquiring, renovating and expanding certain existing jail facilities and constructing additional jail facilities. The Member Jurisdictions are the Cities of Lynchburg and Bedford and the Counties of Halifax, Bedford, and Campbell. The Authority began operating the existing jail facilities in the Member Jurisdiction on July 1, 1998.

The City sold its existing jail facilities to the Authority during FY 1997. A new central jail facility was constructed in Lynchburg and opened in FY 2000. It is owned and operated by the Authority. Each Member Jurisdiction pays a per diem charge for each day that one of its prisoners is at any Regional Jail Facility. In accordance with the Service Agreement, the Authority has divided the per diem charge into an operating component and a debt service component. The per diem charge is based on an agreed upon number of prisoner days, and is subject to an adjustment at the end of each fiscal year. During the year ended June 30, 2005, the City paid \$3,591,600 to the Authority.

Central Virginia Community Services Board: The City, in conjunction with the counties of Amherst, Appomattox, Bedford and Campbell and the City of Bedford participate in the Central Virginia Community Services Board, which is composed of two members from each of the participating localities. The City appropriated \$436,796 for an operating contribution to the Central Virginia Community Services Board for the year ended June 30, 2005.

Joint Venture: The City participates in an intergovernmental agreement with the Counties of Amherst and Bedford and the City of Bedford for the operation of a regional radio communication system. The Central Virginia Regional Radio Communications Board is responsible for overseeing the management, operation and administration of the system. The project was financed originally by lease revenue bonds of the Industrial Development Authority of Amherst County and the City of Bedford (in the amount of \$9,931,000 with interest at 5.72%), and the leasing of the project to the participating jurisdictions. On August 1, 2004, this lease revenue bond was refinanced with a \$5,075,000 lease revenue note at 3.30% and a July 2011 maturity. Each participating jurisdiction maintains a leasehold interest in the project and shares costs of operation and maintenance equal to the jurisdiction’s payment percentage as defined in the agreement. The City’s participating interest is 33.10%. Future minimum lease payments in the amount of \$1,565,658 are included in the governmental activities noncurrent liabilities. An asset in the amount of \$1,794,182 is shown in the governmental activities capital assets, net of accumulated depreciation. Separate financial statements of this joint venture are not available.

Related Organizations: The following entities are excluded from the accompanying financial statements:

Lynchburg Redevelopment and Housing Authority: Under the *Code of Virginia* (“Code”), the Commonwealth of Virginia (“Commonwealth”) created in each city and county a redevelopment and housing authority which is a separate political subdivision of the Commonwealth. Under a resolution approved in April 1956, City Council declared a need for a housing authority in the City, activating the Lynchburg Redevelopment and Housing Authority (the “LRHA”). The LRHA owns and operates federal and state-assisted housing projects for low-income families and administers urban development projects. Commissioners of the LRHA are appointed by City Council; however, City Council is not financially accountable for LRHA. During 2005, the City provided \$282,283 to the LRHA from the Community Development Block Grant Fund.

## CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements

As of June 30, 2005

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### **Note 1. Summary of Significant Accounting Policies (Continued)**

#### **A. Financial Reporting Entity (Continued)**

*Industrial Development Authority of the City of Lynchburg:* Under the *Code of Virginia*, City Council passed an ordinance on March 14, 1967, which created the Industrial Development Authority of the City of Lynchburg (the "IDA"). The IDA was established to promote industry and develop trade within the City. The IDA is governed by a board of seven directors appointed by City Council; however, City Council is not financially accountable for the IDA.

*Other Boards and Commissions:* City Council appoints certain members of various boards and commissions' governing bodies as provided under state and local laws and ordinances. The boards and commissions are advisory in nature and City Council is not financially accountable for these organizations.

#### **B. Basis of Presentation**

The accompanying financial statements present the government and its component units legally separate entities for which the City is financially accountable. As permitted in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the City has elected not to apply to its enterprise funds Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

*Government-wide Statements:* The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental and business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

*Fund Financial Statements:* The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are spent and the means by which spending activities are controlled. The various fund categories and fund types presented in the financial statements are described below:

#### **Governmental Fund Types:**

*General Fund:* The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

## CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2005

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### **Note 1. Summary of Significant Accounting Policies (Continued)**

#### **B. Basis of Presentation (Continued)**

**Special Revenue Funds:** Special Revenue Funds are used to account for the proceeds of specific revenue, other than major capital projects, that are legally restricted to expenditures for specified purposes. These funds consist of the City Federal/State Aid Projects, Community Development Block Grant, Museum System, Lynchburg Business Development Centre, Detention Home, Law Library, Forfeited Assets, Lynchburg Expressway Appearance, Comprehensive Services Act, E-911, Home Investment Trust, Technology Services and Baseball Stadium.

**Capital Projects Funds:** Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds. This fund consists of the City Capital Projects Fund, Highway Projects Grant Fund, and School Capital Projects Fund.

#### **Proprietary Fund Types:**

**Enterprise Funds:** Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expense incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. These funds consist of the Water, Sewer, Solid Waste Management, and Airport Funds.

The total enterprise funds columns in the proprietary fund statement of net assets and activities are essentially equal to the business-type activity column in the government wide statements, with the exception of the impact of allocating internal service fund activity. For fiscal year 2005, the allocation of internal service fund activity reduced total net assets by \$1,697,016.

**Internal Service Funds:** Internal Service Funds are used to account for the financing of goods and services supplied to other funds of the City on a cost-reimbursement basis. A Fleet Management Fund has been established to account for the operation and maintenance of City vehicles.

#### **Fiduciary Fund Types:**

**Agency Funds:** Agency Funds are used to account for assets held by the City as an agent or custodian for others. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. These funds consist of the Special Welfare and Central Virginia Regional Radio Board Funds.

#### **C. Measurement Focus and Basis of Accounting**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

## CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements

As of June 30, 2005

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### **Note 1. Summary of Significant Accounting Policies (Continued)**

#### **C. Measurement Focus and Basis of Accounting (Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both “measurable” and “available.” Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 45 days of the end of the current fiscal period for most revenues. Reimbursement basis grants are recognized as revenue when all eligibility requirements are met. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Intergovernmental revenues, consisting principally of categorical aid from federal and state agencies, are recognized when earned or at the time of the specific expenditure. Sales and public utility taxes, which are collected by the Commonwealth of Virginia and public utilities, respectively, and subsequently remitted to the City, are recognized as revenues and receivables when measurable and available.

Expenditures in governmental funds are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. The exceptions to this general rule are principal and interest on general long-term debt, which are recognized when due.

Proprietary fund types utilize the accrual basis of accounting. Revenues are recognized when earned, including unbilled utility receivables and expenses are recognized when incurred. Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the enterprise fund and of the City’s internal service funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Agency funds are unlike all other types of funds, reporting only assets and liabilities; therefore, agency funds do not have a measurement focus. The agency fund utilizes the accrual basis of accounting to recognize receivables and payables.

The City reports one major governmental fund, the *General Fund*.

The City reports the following major proprietary funds: The *Water Fund*, *Sewer Fund*, *Airport Fund* and *Solid Waste Management Fund*.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted resources as they are needed.

## CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements

As of June 30, 2005

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### **Note 1. Summary of Significant Accounting Policies (Continued)**

#### **D. Budgets and Budgetary Accounting**

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) On or before April 15, the City Manager submits to City Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budgets includes proposed expenditures and the means of financing them.
- 2) Public hearings are conducted to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of an appropriations resolution.
- 4) The City Manager is authorized to transfer budget amounts between departments within any fund; however, any revisions that alter the total budget amounts and/or appropriations of any fund must be approved by City Council. City Council approved additional appropriations of \$35,865,535 during the fiscal year ended June 30 primarily for local match for various grants, human services programs, and additional operating expenditures. It also includes a carryforward of unexpended prior year appropriations for continuing programs. The Superintendent of the Schools is authorized to transfer budget amounts within departments; however, any revisions that alter total budget amounts of any department must be approved by the School Board.
- 5) Formal budgetary integration is employed as a management control device during the year for all funds.
- 6) Budgets for the General Fund and the Capital Projects Funds are prepared in accordance with management's and the City Attorney's interpretation of the City Charter, which is principally the modified accrual basis of accounting. Encumbrances are treated as a reservation of fund equity and reappropriated in the next fiscal year. Further, certain revenues, expenditures, and operating transfers related to internal service type functions are included for budget purposes. The budget for the Lynchburg City Schools (School Operating Special Revenue Fund) is prepared on modified accrual basis of accounting.

Project budgets are utilized in the Capital Projects Funds. All General Fund appropriations which are not encumbered lapse at year end. Appropriations for the Capital Projects Funds are continued until completion of applicable projects, even when projects extend for more than one fiscal year, or until repealed. New capital projects and additional appropriations for ongoing projects are included in the capital adopted budget commencing on July 1, concurrent with the operating budget process described above.

#### **E. Cash and Cash Equivalents**

The City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. Restricted cash and temporary cash investments of the General Fund and Enterprise Funds include certain deposits, unexpended bond proceeds and amounts related to the Passenger Facility Charge Program at the Lynchburg Regional Airport.

#### **F. Investments**

Investments are stated at fair value. Interest earned by certain funds of the Schools and City Capital Projects Fund are allocated to the General Fund. All other interest is allocated to the fund which owns the underlying investments.

## CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2005

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### **Note 1. Summary of Significant Accounting Policies (Continued)**

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#### **G. Receivables**

The City calculates its allowance for uncollectible accounts using historical collection data, and specific account analysis. Receivables are presented net of allowance for doubtful accounts. The allowance at June 30, 2005 is composed of the following:

General Fund	\$	1,531,340
Enterprise Funds	\$	278,832

#### **H. Inventory**

Inventory in the Water Fund is valued at cost using the first-in, first-out (FIFO) method. This inventory consists principally of spare parts held for consumption. The cost of these spare parts is recorded as an expense at the time individual inventory items are withdrawn for use.

#### **I. Capital Assets**

**Governmental funds:** Capital outlays are recorded as expenditures on the governmental fund financial statements and as assets on the government-wide financial statements to the extent the City's capitalization threshold of \$5,000 is met. Infrastructure has been capitalized retroactively to 1980. The City depreciates capital assets using the straight-line method over their estimated useful lives as follows:

<u>Assets</u>	<u>Years</u>
Land improvements	15-20
Buildings and improvements:	
New construction	30-40
Improvements	15-20
Infrastructure	30-50
Machinery and equipment	5-10

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Works of art, historical treasures and similar assets have not been capitalized. Schools' buildings and other facilities are capital assets for the City government and not for the component unit.

**Proprietary Fund Types:** Capital outlays of the proprietary funds are recorded as capital assets on both the fund basis and the government-wide basis. Capital assets are stated at cost or estimated original cost based on independent consultant studies, net of accumulated depreciation. Donated capital assets are recorded at their fair value at the date of receipt. Repairs and maintenance are charged to expense when incurred. When capital assets are sold or retired, the cost of the assets and the related accumulated depreciation are eliminated and a gain or loss is recognized. Depreciation has been provided over the estimated useful lives using the straight-line method. Depreciation rates range from 2% to 33%.

The City follows the policy of capitalizing, during the period of construction, the net interest costs on funds borrowed to finance the construction of enterprise funds' capital assets. During 2005, the enterprise funds incurred interest costs of \$2,810,396 of which \$156,331 was capitalized.

## CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2005

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### **Note 1. Summary of Significant Accounting Policies (Continued)**

#### **J. Deferred Revenue**

Deferred revenue consists primarily of property taxes and other receivables not collected within 45 days of year-end.

#### **K. Compensated Absences**

City employees accumulate vacation time depending upon their length of service up to a total of 288 hours. All outstanding vacation time is payable upon termination of employment. The current portions are not recorded as liabilities in the governmental fund financial statements until they have matured as a result of employee resignations and retirements. In proprietary funds, both the expenses and the liabilities are recorded as benefits are earned. All vacation pay is accrued when incurred in the government-wide financial statements. Each operating fund is responsible for covering its share of vacation pay liability.

#### **L. Arbitrage Rebate Liability**

The U.S. Treasury has issued regulations on calculating the rebate due the Federal government on arbitrage profits and determining compliance with the arbitrage rebate provisions of the Tax Reform Act of 1986. Arbitrage profits arise when the City temporarily invests the proceeds of tax exempt debt in securities with higher yields. The City treats the estimated rebate payable as a reduction of available financial resources in the fund that earned the arbitrage profit. Accordingly, interest earnings are reduced by the amount of the increase in the estimated rebate payable and a liability is reported in the appropriate fund. At June 30, 2005, there was no arbitrage rebate liability.

#### **M. Interfund Transactions**

During the course of normal business operations the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, or satisfy certain obligations. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are transfers and other charges between the City's enterprise funds and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. Subsidies between funds are recorded as transfers.

#### **N. Estimates**

Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and reported revenues, expenditures and expenses. Actual results could differ.

#### **O. Net Assets/Fund Equity**

Net Assets in government-wide and proprietary financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

In the fund financial statements, City funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

## CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2005

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### Note 2. Cash and Investments

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#### Deposits:

All cash of the City and component unit School Board is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 *et. Seq.* of the *Code of Virginia*, or covered by federal depository insurance.

#### Investments:

##### Investment Policy:

In accordance with the *Code of Virginia* and other applicable law, including regulations, the City's Investment Policy (Policy) permits investments in Treasury Securities, agency securities, prime quality commercial paper, certificates of deposit maturing within one year and issued by domestic banks, banker's acceptances, Commonwealth of Virginia and Virginia Local Government Obligations, repurchase agreements, open-end investments, the Virginia State Non-Arbitrage Program or other authorized Arbitrage Investment Management programs, and the State Treasurer's Local Government Investment Pool (the Virginia LGIP, a 2a-7 like pool). Pursuant to Sec. 2.1-234.7 of the *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings and the fair value of the position in LGIP is the same as the value of the pool shares (i.e., the LGIP maintains a stable net asset value of \$1 per share). The investment policy specifies that no investment may have a maturity greater than one year from the date of purchase.

##### Credit Risk:

As required by state statute or by the City, the Policy requires that commercial paper have a short-term debt rating of no less than "A-1" (or its equivalent) from at least two of the following: Moody's Investors Service, Standard & Poor's, and Fitch Investor's Service, provided that the issuing corporation has a net worth of \$50 million and its long term debt is rated A or better by Moody's and Stand and Poor's. Banker's acceptances and Certificates of Deposit maturing in less than one year must have a short-term debt rating of at least "A-1" by Standard & Poor's and "P-1" by Moody's Investor Service. Open-end investment funds must be registered under the Securities Act of the Commonwealth or the Federal Investment Company Act of 1940, provided that they invest only in securities approved for investment herein. Commonwealth of Virginia and Virginia Local Government Obligations secured by debt service reserve funds not subject to annual appropriation must be rated AA or higher by Moody's or Standard & Poor's. Repurchase agreements require that the counterparty be rated A or better by Moody's and Standard & Poor's.

As of June 30, 2005, 19% of the portfolio was invested in "AAA" rated obligations, 11% was invested in "AA" rated securities, 3% was invested in "A" rated short-term notes and 64% was invested in an "AAAm" rated LGIP fund. The remaining 3% of the portfolio was invested in obligations guaranteed by the U.S. Government. All credit ratings presented in this paragraph are Standard & Poor's ratings.

##### Concentration of Credit Risk:

Although the intent of the Policy is for the City to diversify its investment portfolio to avoid incurring unreasonable risks regarding (i) security type, (ii) individual financial institution or issuing entity, and (iii) maturity, the Policy places no limit on the amount the City may invest in any one issuer.

As of June 30, 2005, the portions of the City's portfolio that exceed 5% of the total portfolio are as follows:

<u>Issuer</u>	<u>% of Portfolio</u>
Repurchase Agreements	9%
Money Market Funds-LGIP	64%
Federal Home Loan Mortgage Corporation	7%
Federal National Mortgage Association	8%

## CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements

As of June 30, 2005

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### Note 2. Cash and Investments (Continued)

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#### Concentration of Credit Risk: (Continued)

##### Interest Rate Risk:

The Policy limits certain investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Agency securities purchased must mature within five years of the date of purchase. Prime commercial paper must mature within 270 days of the date of purchase and banker's acceptances must mature within 180 days of the date of purchase.

As of June 30, 2005, the carrying values and weighted average maturity of the City's investments were as follows:

INVESTMENT TYPE	FAIR VALUE	WEIGHTED AVERAGE MATURITY*
Money market funds – Virginia LGIP	\$ 44,942,939	-
Repurchase agreements	6,484,000	1
Commercial paper	3,985,840	43
U.S. Treasury bills	1,989,940	58
Federal Home Loan Mortgage Corporation	4,986,600	29
Federal National Mortgage Association	5,553,265	122
Federal Home Loan Bank	1,988,351	140
Total investments	<u>\$ 69,930,935</u>	
Portfolio weighted average maturity		20

\* Weighted average maturity in days.

##### Custodial Credit Risk

The Policy requires that all investment securities purchased by the City shall be held in the safekeeping by a third party and evidenced by safekeeping receipts. As required by the *Code of Virginia*, all security holdings with maturities over 30 days may not be held in safekeeping with the "counterparty" to the investment transaction. As of June 30, 2005, all of the City's investments are held in a bank's trust department in the City's name.

## CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements

As of June 30, 2005

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### ***Note 2. Cash and Investments (Continued)***

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#### Concentration of Credit Risk: (Continued)

The above items are reflected in the statements as follows:

	Primary Government	School Board Component Unit
Deposits and investments:		
Cash on hand	\$ 22,650	\$ 500
Deposits	(2,257,027)	563,760
Investments	57,572,387	12,358,548
	<u>\$ 55,338,010</u>	<u>\$ 12,922,808</u>
Statement of net assets:		
Cash and cash equivalents	\$ 35,589,011	\$ 12,583,163
Investments	18,509,689	-
Restricted cash and cash equivalents	1,034,945	244,267
Fiduciary fund cash and cash equivalents	<u>204,365</u>	<u>95,378</u>
	<u>\$ 55,338,010</u>	<u>\$ 12,922,808</u>

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### ***Note 3. Property Taxes***

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Property taxes are levied on a fiscal year basis on July 1, the assessment date, and become a lien as of that date. Supplemental property billings are levied in June to reflect construction in progress during the fiscal year. Personal property assessments are prorated for additional acquisitions of personal property throughout the year resulting in additional billings to taxpayers. Real estate taxes are payable in four quarterly installments on November 15, January 15, March 15, and May 15. Personal property taxes are payable on November 15 and additional billings are due February 15.

A penalty of 10% for late payment and interest at the rate of 10% is charged on unpaid balances. The City bills and collects its own property taxes.

**CITY OF LYNCHBURG, VIRGINIA**

Notes to Financial Statements

As of June 30, 2005

***Note 4. Interfund Receivables, Payables, and Transfers***

Interfund balances at June 30, 2005 were as follows:

	Interfund Receivables	Interfund Payables
Major Funds:		
General	\$ 1,859,954	\$ 29,640
Nonmajor Funds – Special Revenue:		
City Federal/State Aid Projects Fund	-	62,031
Community Development Block Grant Fund	-	368,167
Law Library Fund	-	3,048
Lynchburg Business Development Centre Fund	-	30,000
Detention Home Fund	-	66,053
Comprehensive Services Act Fund	-	672,426
HOME Investment Trust Fund	-	169,518
E-911 Fund	-	30,900
Technology Services Fund	870	-
Nonmajor Funds-Capital Projects		
City Capital Project Fund	-	175,894
Major Proprietary Funds:		
Water	29,169	101,798
Sewer	-	68,341
Airport	-	34,167
Solid Waste	-	57,632
Internal Service	-	20,378
	<hr/>	<hr/>
Totals	\$ 1,889,993	\$ 1,889,993
	<hr/>	<hr/>

Interfund receivables/payables for governmental funds primarily represent advances to special revenue funds to be repaid with future grant revenues. Interfund payables for proprietary funds primarily represent payroll related accrued liabilities amounts due to payroll agency accounts.

# CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements

As of June 30, 2005

## ***Note 4. Interfund Receivables, Payables and Transfers (Continued)***

Interfund transfers were as follows:

	To	From
Major Funds:		
General	\$ 994,616	\$ 5,182,642
Nonmajor governmental funds:		
City Federal/State Aid Projects Fund	189,365	765,961
Comprehensive Service Act Fund	151,876	-
Home Investment Trust Fund	5,222	-
Detention Home Fund	75,353	
Law Library Fund		26,150
E-911 Fund		105,000
Technology Services Fund	761,727	25,000
Baseball Stadium Fund	196,511	300,000
Nonmajor Funds – Capital Projects:		
City Capital Project Fund	2,356,435	145,489
Major proprietary funds:		
Water	-	147,123
Sewer	-	164,394
Airport	419,980	-
Solid Waste	732,529	371,855
Internal Service	1,350,000	-
	<u>\$ 7,233,614</u>	<u>\$ 7,233,614</u>

Transfers between major funds (general and proprietary) and other nonmajor governmental funds were primarily to support capital projects, operations and fleet vehicles and equipment.

## ***Note 5. Due From/To Primary Government and Component Units***

Due from/to balances between the City and its component units at June 30, were as follows:

	Due From	Due To
Primary Government:		
General	\$ 3,893,017	\$ 16,716
Special Revenue:		
Lynchburg Business Development Centre Fund	155,000	-
	<u>\$ 4,048,017</u>	<u>\$ 16,716</u>
Component Units:		
Lynchburg City Schools	\$ -	\$ 3,893,017
Business Development Centre, Inc.	-	155,000
Greater Lynchburg Transit Company	16,716	-
	<u>\$ 16,716</u>	<u>\$ 4,048,017</u>

# CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2005

## **Note 6. Due From Other Governments**

Amounts due from other governments at June 30, consisted of the following:

	Primary Government		Component Units	
	Governmental Activities	Business-type Activities	Schools	Others
Surrounding counties – Detention Home	\$ 102,396	\$ -	\$ -	\$ -
Various federal and state grants	6,709,646	554,038	2,282,201	455,385
Virginia Revolving Loan	-	11,244,791	-	-
Members of Regional Sewage Treatment Plant	-	5,858,836	-	-
	<u>\$ 6,812,042</u>	<u>\$ 17,657,665</u>	<u>\$ 2,282,201</u>	<u>\$ 455,385</u>

### Due from members of the Regional Sewage Treatment Plant

The amounts due from members of the Regional Sewage Treatment Plant Agreement (Agreement) of June 6, 1974 represent amounts due from Amherst County, the Bedford County Public Service Authority and the Campbell County Utilities and Service Authority for their proportionate share (20%) of improvements to Joint-Use Facilities. These Joint-Use Facilities are defined as the City's Regional Waste Water Treatment Plant and its immediately related treatment facilities used jointly by the City and one or more of the Counties in connection with the transmission or treatment of wastes made the subject of the Agreement. The cost of improvements are billed to each community and recorded as contributed capital when related projects are completed. Pursuant to Section VI (b) of the Agreement, each County shall have the option of paying its proportionate share of the cost of the project either in cash or on a deferred payment schedule coinciding with the period over which the City's bonds are amortized plus interest at the rate equivalent to the net interest cost to the City. The Counties have elected to pay their share of improvements coinciding with the City's. Future payments to be received are as follows:

Amount receivable within 1 year	\$ 384,746
Amount receivable 1 to 5 years	1,937,507
Amount receivable beyond 5 years	<u>3,536,583</u>
	<u>\$ 5,858,836</u>

## **Note 7. Receivables**

Receivables as of June 30, for the government's individual major funds and nonmajor funds in the aggregate, net of allowances for uncollectible accounts are as follows:

	Property Taxes	Accounts	Other	Total
General	\$ 1,187	\$ 5,153,047	\$ 148,439	\$ 6,488,889
Water		1,075,706	6,334	1,082,040
Sewer		1,774,946	95,890	1,870,836
Airport		90,754	42,874	133,628
Solid Waste		791,670	-	791,670
Internal Service		-	13,088	13,088
Nonmajor Governmental Funds		-	464,037	464,037
	<u>\$ 1,187</u>	<u>\$ 8,886,123</u>	<u>\$ 770,662</u>	<u>\$ 10,844,188</u>

# CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2005

## Note 8. Capital Assets

### Primary Government:

A summary of the changes in the City's capital assets for governmental activities are as follows:

	Restated Beginning Balances	Transfers and Additions	Transfers and Retirements	Ending Balances
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 8,979,322	\$ 187,304	\$ 541,764	\$ 8,624,862
Construction in progress	25,481,677	12,889,993	25,207,973	13,163,697
Total capital assets, not being depreciated	34,460,999	13,077,297	25,749,737	21,788,559
Capital assets, being depreciated:				
Land improvements	6,332,240	1,602,457	-	7,934,697
Buildings and improvements	145,826,284	24,540,763	10,000	170,357,047
Infrastructure	183,412,315	3,064,885	184,380	186,292,820
Machinery and equipment	27,731,723	3,329,187	1,432,016	29,628,894
Total capital assets, being depreciated	363,302,562	32,537,292	1,626,396	394,213,458
Less – accumulated depreciation for:				
Land improvements	1,626,412	355,327	-	1,981,739
Buildings and improvements	71,149,850	3,389,943	278	74,539,515
Infrastructure	70,016,455	5,179,480	55,314	75,140,621
Machinery and equipment	13,758,569	2,739,695	1,308,078	15,190,186
Total accumulated depreciation	156,551,286	11,664,445	1,363,670	166,852,061
Total capital assets, being depreciated	206,751,276	20,872,847	262,726	227,361,397
Governmental activities capital assets, net	\$ 241,212,275	\$ 33,950,144	\$ 26,012,463	\$ 249,149,956

The construction in progress balance at June 30, 2004 was restated from \$25,941,419 to \$25,481,677 resulting in a \$459,742 net decrease of the fiscal year 2004 ending capital asset balance. The balance was restated in order to remove a project from construction in progress that was determined to be maintenance and repair expense rather than a capital expenditure.

Included in Governmental Activities' capital assets is property in the amount of \$9,590,304 at June 30, 2005 financed by a capital leases.

## CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements

As of June 30, 2005

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### **Note 8. Capital Assets (Continued)**

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#### **Primary Government:** (Continued)

Depreciation was charged to governmental functions as follows:

Governmental activities:

General government	\$ 483,843
Education	1,461,773
Judicial	166,739
Health and human services	418,323
Public Safety	1,510,440
Public Works	6,427,343
Community development	11,886
Cultural and recreational	502,276
Total governmental activities	<u>10,982,623</u>

Business-type activities:

Water	68,118
Sewer	126,036
Airport	17,028
Solid Waste	470,640
Total business type activities	<u>681,822</u>
Total depreciation	<u>\$ 11,664,445</u>

The Fleet Internal Services Fund, whose assets are reported as a part of the City's governmental assets, purchases vehicles that are used by the City's Enterprise Funds. Depreciation related to those vehicles is allocated to the Enterprise Funds. In prior years, the City Capital Projects Fund, on occasion, would construct assets that were used primarily by the Enterprise Funds. Depreciation on these assets is also allocated to the Enterprise Funds. The \$681,822 of business-type activities depreciation reflected above is the allocation of this depreciation and is not reflected on the business-type activities asset information reported below.

# CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2005

## Note 8. Capital Assets (Continued)

### Primary Government: (Continued)

A summary of the changes in the City's capital assets for business-type activities is as follows:

	<u>Beginning Balances</u>	<u>Transfers and Additions</u>	<u>Transfers and Retirements</u>	<u>Ending Balances</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 5,411,781	\$ 224,046	\$ 3,250	\$ 5,632,577
Construction in progress	18,777,401	14,307,504	11,813,419	21,271,486
Total capital assets, not being depreciated	24,189,182	14,531,550	11,816,669	26,904,063
Capital assets, being depreciated:				
Land improvements	15,134,983	452,591	74,253	15,513,321
Buildings and improvements	35,903,849	-	286,502	35,617,347
Infrastructure	222,092,264	11,487,207	703,804	232,875,667
Machinery and equipment	14,711,134	219,467	551,899	14,378,702
Capitalized interest	5,420,277	156,331	-	5,576,608
Total capital assets, being depreciated	293,262,507	12,315,596	1,616,458	303,961,645
Less – accumulated depreciation for:				
Land improvements	10,993,296	511,894	72,645	11,432,545
Buildings and improvements	12,536,712	1,102,214	286,502	13,352,424
Infrastructure	57,101,234	5,367,371	360,389	62,108,216
Machinery and equipment	9,906,508	815,314	536,181	10,185,641
Capitalized interest	854,468	108,405	-	962,873
Total accumulated depreciation	91,392,218	7,905,198	1,255,717	98,041,699
Total capital assets, being depreciated, net	201,870,289	4,410,398	360,741	205,919,946
Business-type activities capital assets, net	<u>\$ 226,059,471</u>	<u>\$ 18,941,948</u>	<u>\$ 12,177,410</u>	<u>\$ 232,824,009</u>

# CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements

As of June 30, 2005

## *Note 8. Capital Assets (Continued)*

### Component Units:

A summary of the changes in capital assets of the Schools is as follows:

<u>Lynchburg City Schools</u>	<u>Beginning Balances</u>	<u>Transfers and Additions</u>	<u>Transfers and Retirements</u>	<u>Ending Balances</u>
Capital assets, being depreciated:				
Equipment	\$ 5,287,023	\$ 622,737	\$ 132,504	\$ 5,777,256
Equipment – Cafeteria	411,627	92,317	-	503,944
Total capital assets, being depreciated	5,698,650	715,054	132,504	6,281,200
Less – accumulated depreciation for:				
Equipment	3,781,940	322,476	123,518	3,980,898
Equipment – Cafeteria	220,608	45,778	-	266,386
Total accumulated depreciation	4,002,548	368,254	123,518	4,247,284
Total capital assets, net	<u>\$ 1,696,102</u>	<u>\$ 346,800</u>	<u>\$ 8,986</u>	<u>\$ 2,033,916</u>

Included in the Lynchburg City Schools capital assets is property in the amount of \$573,867 at June 30 financed by capital lease.

Details of capital assets of other Component Units are as follows:

Land, buildings, and improvements	\$ 2,138,163
Machinery and equipment	8,500,515
	<u>10,638,678</u>
Less accumulated depreciation	<u>6,553,815</u>
	<u>\$ 4,084,863</u>

## CITY OF LYNCHBURG, VIRGINIA

### Notes to Financial Statements As of June 30, 2005

#### **Note 9. Long-Term Liabilities**

##### General Obligation Debt:

Details of general obligation debt of the City at June 30 are as follows:

General Obligation Debt	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Primary Government			Total All Funds
					Public Improvements	School Facilities	Proprietary Funds	
<b>Bond Anticipation Note</b>								
Public Improvement BAN	3.00%	06/01/2004	2006	\$ 7,500,000	\$ -	\$ 7,500,000	\$ -	\$ 7,500,000
<b>Serial Bonds</b>								
VP SA	4.90 - 6.35%	11/12/1992	2012	\$ 458,292	-	205,093	-	205,093
VRA Public Improvement	4.50%	03/24/1994	2016	\$ 3,976,369	-	-	2,724,381	2,724,381
VP SA	6.25 - 6.75%	11/22/1994	2014	\$ 2,100,362	-	1,168,163	-	1,168,163
Public Improvement Bonds	5.35 - 6.50%	01/01/1995	2015	\$ 9,800,000	98,405	275,000	116,595	490,000
Taxable Refunding Bonds	5.40 - 6.75%	01/01/1996	2014	\$ 7,150,000	-	745,000	-	745,000
Public Improvement Bonds	4.30 - 4.90%	02/01/1996	2016	\$ 5,000,000	478,400	-	21,600	500,000
Public Improvement Bonds	4.60 - 5.40%	02/15/1997	2017	\$ 16,000,000	556,000	712,000	372,000	1,640,000
Public Improvement Bonds	4.00 - 5.00%	04/01/1998	2018	\$ 33,855,000	4,527,359	3,858,945	6,773,696	15,160,000
Public Improvement Bonds	4.25 - 5.00%	06/01/1999	2019	\$ 17,805,000	5,560,372	1,975,494	4,909,134	12,445,000
Public Improvement Bonds	5.25 - 5.75%	07/18/2000	2030	\$ 14,405,000	1,040,210	476,790	1,058,000	2,575,000
Public Improvement Bonds	4.00 - 4.875%	08/16/2001	2031	\$ 14,620,000	-	1,768,241	11,676,759	13,445,000
VP SA Bonds	3.10 - 5.35%	11/15/2001	2021	\$ 3,473,329	-	2,995,869	-	2,995,869
VP SA Bonds	2.35 - 5.10%	11/07/2002	2023	\$ 6,513,732	-	5,911,893	-	5,911,893
Refunding Bonds	2.00 - 5.00%	02/01/2003	2014	\$ 23,670,000	5,202,949	616,399	10,410,652	16,230,000
Public Improvement Bonds	2.50 - 4.625%	02/01/2003	2033	\$ 16,745,000	8,350,000	2,210,000	4,995,000	15,555,000
Public Improvement Bonds	3.00 - 5.00%	06/01/2004	2034	\$ 28,160,000	10,445,000	9,650,000	7,125,000	27,220,000
Refunding Bonds	3.00 - 5.25%	03/16/2005	2030	\$ 33,105,000	12,877,845	8,474,880	11,752,275	33,105,000
Refunding Bonds	3.90 - 4.86%	03/16/2005	2014	\$ 3,810,000	-	3,810,000	-	3,810,000
Totals					<u>\$ 49,136,540</u>	<u>\$ 52,353,767</u>	<u>\$ 61,935,092</u>	<u>\$ 163,425,399</u>

Bonds issued between 1992 and 2005 are callable subject to a maximum premium of 2%.

Authorized and unissued general obligation public improvement bonds and public utility revenue bonds amounted to \$23,740,000 and \$1,511,847 respectively, at June 30, 2005.

The Commonwealth imposes a legal limit of 10% of assessed valuation on the amount of general obligation borrowings that may be issued by the City. As of June 30, 2005, the City's aggregate general obligation indebtedness was \$182,103,128 less than the state limit. There are no overlapping tax jurisdictions.

# CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements

As of June 30, 2005

## Note 9. Long-Term Liabilities (Continued)

### Revenue Debt:

Details of the revenue debt of the Enterprise Funds at June 30, are as follows:

	Interest Rates	Date Issued	Maturity Date	Original Issue	Enterprise Funds
Virginia Resources Authority:					
Public Utility Revenue Bonds	0.00%	03/28/1995	2026	\$ 6,571,000	\$ 3,842,777
Public Utility Revenue Bonds	0.00%	08/10/1995	2028	\$ 10,000,000	6,607,143
Public Utility Revenue Bonds	0.00%	06/27/1996	2028	\$ 8,000,000	5,114,577
Public Utility Revenue Bonds	3.00%	07/17/1997	2020	\$ 14,108,460	11,449,395
Public Utility Revenue Bonds	3.00%	06/02/1999	2020	\$ 2,476,763	2,006,106
Public Utility Revenue Bonds	0.00%	07/17/1997	2029	\$ 7,591,540	5,570,124
Public Utility Revenue Bonds	0.00%	08/01/1998	2030	\$ 6,203,000	4,840,921
Public Utility Revenue Bonds	0.00%	09/02/1999	2021	\$ 5,300,000	4,463,158
Public Utility Revenue Bonds	0.00%	03/15/2001	2031	\$ 735,000	610,658
Public Utility Revenue Bonds	3.50%	06/08/2001	2021	\$ 2,835,000	2,536,270
Public Utility Revenue Bonds	0.00%	11/06/2001	2033	\$ 1,413,613	1,284,830
Public Utility Revenue Bonds	0.00%	09/15/2003	2035	\$ 2,500,000	2,500,000
Public Utility Revenue Bonds	0.00%	05/20/2004	2037	\$ 6,000,000	6,000,000
Public Utility Revenue Bonds	0.00%	5/17/2005	2038	\$ 6,700,000	6,700,000
<u>Total Revenue Debt:</u>					<u>\$ 63,525,959</u>

The revenue bonds have been issued in accordance with the terms of an indenture agreement with the Virginia Resources Authority (VRA) of the Commonwealth of Virginia. The indenture agreement requires the City to pledge its Sewer Fund Revenues as collateral for the revenue bonds and to maintain debt coverage in the Sewer equal at least 1.15 of all debt service payments which exclude any refunded principal payments. As shown below, the debt coverage ratio for the year ended June 30, 2005 was 1.36.

Sewer Fund Operating Income	\$ 4,785,102
Add:	
Depreciation and amortization	3,777,969
Interest income received	248,236
Capital contributions from members - Regional Sewerage Treatment Plant	383,901
Governmental grants and miscellaneous income	43,657
Net revenue per indenture	<u>\$ 9,238,865</u>
Net principal and interest payments (excluding refunded principal payments)	<u>\$ 6,797,788</u>
Debt coverage	<u>1.36</u>

# CITY OF LYNCHBURG, VIRGINIA

## Notes to Financial Statements

As of June 30, 2005

### Note 9. Long-Term Liabilities (Continued)

#### Primary Government:

The following is a summary of changes in long-term liabilities for the year ended June 30:

	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
<b>Governmental Activities</b>					
Bond anticipation notes payable	\$ 7,500,000	\$ -	\$ -	\$ 7,500,000	\$ 7,500,000
General obligation bonds payable	100,250,836	25,162,725	31,423,254	93,990,307	6,891,838
Notes payable*	3,200,000	-	-	3,200,000	-
State literary fund loans payable	166,462	-	39,525	126,937	39,525
Adjust for deferred amounts:					
Issuance premiums	597,027	1,160,204	92,158	1,665,073	-
On refunding	(305,865)	(1,824,270)	(177,597)	(1,952,538)	-
Total bonds and notes payable	111,408,460	24,498,659	31,377,340	104,529,779	14,431,363
Workers' compensation payable	312,676	451,687	254,279	510,084	268,421
Compensated absences	3,611,323	2,504,100	2,413,317	3,702,106	300,627
Capitalized lease obligations	8,396,221	1,679,825	2,328,588	7,747,458	460,108
	<u>\$ 123,728,680</u>	<u>\$ 29,134,271</u>	<u>\$ 36,373,524</u>	<u>\$ 116,489,427</u>	<u>\$ 15,460,519</u>
<b>Business-Type Activities</b>					
General obligation bonds payable	\$ 66,896,030	\$ 11,752,275	\$ 16,713,213	\$ 61,935,092	\$ 5,044,007
Public utility revenue bonds payable	59,152,392	6,700,000	2,326,435	63,525,957	2,435,977
Adjust for deferred amounts:					
Issuance discounts	(407,645)	-	(143,773)	(263,872)	-
Issuance premiums	428,869	661,426	51,368	1,038,927	-
On refunding	(727,822)	(829,605)	(156,001)	(1,401,426)	-
Total bonds and notes payable	125,341,824	18,284,096	18,791,242	124,834,678	7,479,984
Workers' compensation payable	94,623	923	58,320	37,226	17,589
Compensated absences	398,667	279,888	288,817	389,738	27,315
Landfill closure – open landfill	2,298,845	179,749	-	2,478,594	-
Landfill closure – closed landfill	356,341	-	32,394	323,947	32,395
	<u>\$ 128,490,300</u>	<u>\$ 18,744,656</u>	<u>\$ 19,170,773</u>	<u>\$ 128,064,183</u>	<u>\$ 7,557,283</u>

\*A note receivable was obtained concurrent with the issuance of this note payable. Neither instrument provided or consumed current financial resources, and therefore are not reflected in the fund statements. The note receivable is included in other assets on the government-wide statement of net assets.

# CITY OF LYNCHBURG, VIRGINIA

## Notes to Financial Statements

As of June 30, 2005

### Note 9. Long-Term Liabilities (Continued)

#### Debt Service to Maturity:

Following is a summary of debt service to maturity for long-term debt:

Governmental Activities						
Year Ending	Governmental Obligation		Literary Fund Loans		Capital Lease Obligations	
June 30	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 6,891,836	\$ 4,116,062	\$ 39,525	\$ 4,870	\$ 460,108	\$ 281,368
2007	7,088,890	3,854,635	19,000	3,496	477,516	264,761
2008	6,723,991	3,583,501	19,000	2,736	494,725	247,552
2009	6,521,091	3,300,716	19,000	1,976	512,556	229,720
2010	6,585,977	3,036,072	-	-	531,035	211,242
2011-2015	29,354,654	11,097,253	19,000	1,216	1,965,045	802,732
2016-2020	18,803,395	5,121,390	11,412	456	1,901,207	462,169
2021-2025	8,288,998	1,837,001	-	-	1,405,266	93,004
2026-2030	3,366,475	525,760	-	-	-	-
2031-2034	365,000	37,260	-	-	-	-
Total	\$ 93,990,307	\$ 36,509,650	\$ 126,937	\$ 14,750	\$ 7,747,458	\$ 2,592,548

General Obligation Bonds								
Enterprise Funds								
Year Ending	Sewer Fund		Water Fund		Solid Waste Management Fund		Airport Fund	
June 30	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 2,210,090	\$ 1,172,806	\$ 1,523,091	\$ 983,798	\$ 1,013,551	\$ 293,782	\$ 297,275	\$ 101,209
2007	2,386,638	1,137,045	1,679,841	941,593	864,267	222,727	285,857	81,481
2008	2,312,792	1,061,302	1,683,800	884,801	876,266	196,823	253,643	73,331
2009	1,966,861	963,295	1,498,384	810,650	584,944	154,373	220,692	62,053
2010	1,961,560	885,197	1,494,805	747,508	577,012	127,160	224,831	52,581
2010-2015	7,903,209	3,346,558	5,977,711	2,868,048	1,826,715	317,636	852,225	140,615
2016-2020	5,074,762	1,928,813	3,890,095	1,670,189	432,858	52,577	245,953	19,432
2021-2025	3,009,912	1,164,659	1,976,250	1,011,697	36,250	14,732	-	-
2026-2030	2,539,992	596,298	1,998,300	539,771	44,660	6,205	-	-
2031-2034	1,130,000	96,615	1,080,000	107,568	-	-	-	-
Total	\$ 30,495,816	\$ 12,352,588	\$ 22,802,277	\$ 10,565,623	\$ 6,256,523	\$ 1,386,015	\$ 2,380,476	\$ 530,702

## CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements

As of June 30, 2005

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### ***Note 9. Long-Term Liabilities (Continued)***

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#### Debt Service to Maturity: (Continued)

Year ending June 30	Revenue Bonds	
	Sewer Fund	
	Principal	Interest
2006	\$ 2,435,978	\$ 485,781
2007	2,463,002	458,757
2008	2,914,197	430,895
2009	2,942,924	402,168
2010	2,972,543	372,550
2011-2015	15,340,182	1,385,279
2016-2020	15,655,784	494,070
2021-2025	9,014,746	5,343
2026-2030	6,266,314	-
2031-2035	2,673,623	-
2036-2037	846,666	-
Total	<u>\$ 63,525,959</u>	<u>\$ 4,034,843</u>

#### Notes Payable, Bank:

In July 2002, the City issued a general obligation note to SunTrust Bank and concurrently entered into a financing agreement with the Bank. The agreement provides for borrowings of up to \$15,000,000 to provide interim financing for qualifying capital improvements. Interest is equal to the tax-exempt note rate as defined in the agreement, plus 0.45%, up to a maximum of 4%, payable in arrears, on a monthly basis. All outstanding amounts are due at final maturity on August 30, 2007. There are no amounts outstanding at June 30, 2005.

#### Bond Anticipation Notes:

In June 2004, the City issued \$7,500,000 general obligation bond anticipation notes maturing on June 1, 2006 for interim financing of school renovation projects. The notes bear interest at the rate of 3% per annum. The notes have been issued in anticipation of securing permanent financing through the Virginia Public School Authority ("VPSA") loan program.

## CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2005

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### *Note 9. Long-Term Liabilities (Continued)*

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#### Current Year Defeasance of Debt:

##### 2005 A Issue

On March 16, 2005, the City issued \$33,105,000 in general obligation bonds with an average interest rate of 4.53 percent to advance refund four outstanding general obligation bonds series, which totaled \$32,220,000. The outstanding general obligation bonds and average interest rates were as follows:

<u>Bond Series</u>	<u>Amount</u>	<u>Average Interest Rate</u>
1996A	\$ 2,250,000	4.86%
1997	8,200,000	5.49%
1998A	11,765,000	5.00%
2000	<u>10,005,000</u>	5.57%
Total	<u>\$ 32,220,000</u>	

The net proceeds of approximately \$34,675,427, which included a \$1,821,631 premium and payment of \$135,000 in issuance costs and \$116,204 in underwriter's compensation, were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on those general obligation bonds. As a result, the general obligation bonds are considered defeased and the liability for those bonds has been removed from the financial statements.

The advance refunding resulted in a difference between the reacquisition price and the net carrying value of the old debt of \$2,334,605. This difference, reported in the accompanying financial statements as deferred debt charges, is being amortized over the life of the refunded bonds as a component of interest expenses through the year 2030. The City completed the advance refunding to reduce its total debt service payments over the next twenty-six years by \$1,774,518 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1,574,348.

##### 2005 B Issue

On March 16, 2005, the City issued \$3,810,000 in taxable general obligation bonds with an average interest rate of 4.65 percent to advance refund \$3,505,000 of outstanding 1996 taxable general obligation bonds with an average interest rate of 6.74 percent. The net proceeds of approximately \$3,784,925 (after payment of \$11,723 in issuance costs and \$13,352 in underwriter's compensation) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for certain future debt service payments on the 1996 taxable general obligation bonds. As a result, the 1996 taxable general obligation bonds are considered defeased and the liability for those bonds has been removed from the financial statements.

The advance refunding resulted in a difference between the reacquisition price and the net carrying value of the old debt of \$279,925. This difference, reported in the accompanying financial statements as deferred debt charges, is being amortized over the life of the refunded bonds as a component of interest expense through the year 2014. The City completed the advance refunding to reduce its total debt service payments over the next 12 years by \$169,892 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$159,621.

## CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2005

### **Note 9. Long-Term Liabilities (Continued)**

#### Current Year Defeasance of Debt: (Continued)

##### Joint Venture – Regional Radio System

The City of Lynchburg is the fiscal agent for the Central Virginia Radio Communications Board and has a 33.10% leasehold interest share in the joint venture for the regional radio system. On August 20, 2004, the Industrial Development Authority of the Town of Amherst, Virginia (IDA) issued \$5,075,000 in a lease revenue note with an interest rate of 3.30 percent to current refund \$5,933,108 of an outstanding 1996 lease revenue bond with an interest rate of 5.72 percent. The 1996 lease revenue bond financed the Central Virginia Radio Communications Board Project for the regional radio system. The lease revenue note proceeds along with the bond debt reserve fund of \$993,100 and related interest income of \$152,975, all of which totaled \$6,221,075, were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to retire the bond on September 30, 2004; and, fund \$37,518 in issuance costs, \$83,700 of accrued interest expense, \$118,862 for the premium on bond retirement, and \$47,887 in lease revenue note debt service. As a result, the 1996 lease revenue bond is considered defeased, and the City's 33.1% share of the liability for those bonds has been removed from the financial statements.

The current refunding resulted in a difference between the reacquisition price and the net carrying value of the old debt of \$118,862. The IDA completed the current refunding to reduce total debt service payments over the next 6 years by \$1,581,782 and to obtain in an economic gain (difference between the present values of the old and new debt service payments) of \$483,679 for the joint venture participants. For the City's share, the current refunding resulted in a difference between the reacquisition price and the net carrying value of the old debt of \$39,343. This difference, reported in the accompanying financial statements as deferred debt charges, is being amortized over the life of the refunded bond as a component of interest expense through the year 2011. The current refunding reduced the City's share of total debt service payments over the next 6 years by \$523,570 and the City obtained its share of an economic gain (difference between the present values of the old and new debt service payments) of \$160,098.

#### Component Unit – Lynchburg City Schools:

The following are summaries of other long-term liabilities and debt service to maturity for capital lease obligations for the year ended June 30:

	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Compensated absences	\$ 533,520	\$ 157,115	\$ -	\$ 690,635	\$ -
Capital lease obligations	1,324,379	1,500,000	724,075	2,100,304	724,137
	<u>\$ 1,857,899</u>	<u>\$ 1,657,115</u>	<u>\$ 724,075</u>	<u>\$ 2,790,939</u>	<u>\$ 724,137</u>

Capital Lease Obligations		
Year Ending June 30	Principal	Interest
2006	\$ 734,099	\$ 55,619
2007	594,686	34,542
2008	357,522	20,041
2009	313,381	10,382
2010	169,176	1,781
Total	<u>\$ 2,168,864</u>	<u>\$ 122,365</u>

## CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2005

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### ***Note 10. Landfill Closure and Postclosure Care Costs***

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The City closed its Tyreeanna I landfill site on October 8, 1993. In accordance with federal and state laws, the City placed a final cover on this site and was required to perform certain maintenance and monitoring functions at this site for a minimum of ten years after closure, or until there are no remaining environmental issues. The City has recently completed the ten-year period; however, due to the State's groundwater monitoring requirements, the City must continue to monitor the groundwater surrounding the facility. The method agreed upon by the State and the City is called monitored natural attenuation. This requires on-going, semi-annual testing of groundwater from wells located above and below the City's landfill. The cumulative amount of estimated closure and postclosure care costs to date for this site is approximately \$3.9 million. As of June 30, 2005, total payments to date are approximately \$3.58 million, leaving estimated postclosure costs of approximately \$320,000. This amount is included in the landfill closure and postclosure liability in the Solid Waste Management Enterprise Fund.

The City's Tyreeanna II landfill site began accepting waste on October 8, 1993. State and federal laws also require the City to place a final cover on this site when it stops accepting waste and to perform maintenance and monitoring functions at this site for thirty years after closure. Although closure and postclosure care costs are paid only near or after the date the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. Estimated closure and postclosure care costs at June 30, 2005 of approximately \$2.48 million for the Tyreeanna II landfill site is based upon the total estimated closure and postclosure care costs of approximately \$5.09 million times 47 percent of the landfill used to date. The City will recognize the remaining estimated cost of closure and postclosure of approximately \$2.61 million as the remaining estimated capacity is filled. The City expects to close the landfill in 2014. Actual cost may be higher due to inflation, changes in technology or changes in regulations.

The City uses the financial test method of demonstrating assurance for closure and postclosure care.

### ***Note 11. Fund Equity Balances***

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Reserved Fund Balance: Fund balance reserves are used to indicate the portion of fund balance that is not available for appropriation or is legally segregated for a specific future use.

Designated Fund Balance: Designations of fund balance are established to indicate tentative plans for financial resource utilization in a future period. Designations of fund balance by purpose are as follows:

	General	Special Revenue
Self insurance and other insurance matters	\$ 2,048,050	\$ -
Adopt A Bed	5,827	-
Health insurance	195,000	-
GLTC	40,009	-
Return of fiscal year 2005 funds to Schools	3,893,017	-
Budget carryforward	914,604	-
Completion of other approved specific projects and activities	-	591,735
Data processing	395,204	-
Court facilities	243,448	-
Recreation	118,916	-
	<u>\$ 7,854,075</u>	<u>\$ 591,735</u>

## CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2005

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### ***Note 12. Employee Benefit Plans***

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#### Defined Benefits Pension Plan:

**Plan Description:** The City contributes to the Virginia Retirement System (“VRS”), an agent and cost-sharing multiple-employer defined pension plan administered by the Virginia Retirement System (“the System”). In addition, professional and non-professional employees of the Schools are covered by the VRS. Professional employees participate in a VRS statewide teacher cost sharing pool, and non-professional employees participate as a separate group in the agency multiple-employer retirement system.

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 for participating law enforcement officers and firefighters) and at age 50 with 30 years of service for participating employees (age 50 with 25 years for participating law enforcement officers and firefighters). Employees who retire with a reduced benefit at age 55 (age 50 for participating law enforcement officers and firefighters) with at least five years of credited service are entitled to an annual retirement benefit payable monthly for life in an amount equal to 1.7 percent of their average final salary (“AFS”) for each year of credited service. An optional reduced retirement benefit is available to members of VRS as early as age 50 with 10 years of credited service. In addition, retirees qualify for annual cost-of-living increases beginning in their second year of retirement. AFS is defined as the highest consecutive 36 months of salary. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. Participating law enforcement officers and firefighters may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits.

Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the State legislature. The system issues a publicly available Comprehensive Annual Financial Report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing the System at P. O. Box 2500, Richmond, Virginia 23218-2500.

**Funding Policy:** Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. The employer has assumed this 5% member contribution. In addition, the City and the Schools are required to contribute the remaining amounts necessary to fund their participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The City’s contribution rate for the fiscal year ended 2005 were 19% of annual covered payroll. The School’s contribution rates for the fiscal year ended 2005 were 11.03% for professional and 12.25% for non-professional employees. Both the City’s and the School’s contribution rates include the employee’s share of 5% paid by the employer.

**Annual Pension Cost:** For 2005, the City’s and Schools’ annual pension costs of \$8,336,842 and \$4,636,670, respectively, were equal to their required and actual contributions. The required contributions were determined as part of the June 30, 2004 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 8% investment rate of return; (b) projected salary increases of 4.25% and 6.10% per year (depending on the employee’s service and classification (general employee or uniformed officer), and (c) 3% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of the City’s and Schools’ assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City’s and Schools’ unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis within a period of 19 years.

**CITY OF LYNCHBURG, VIRGINIA**

Notes to Financial Statements

As of June 30, 2005

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**Note 12. Employee Benefit Plans (Continued)**

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Trend Information for the City of Lynchburg			
Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2005	\$ 8,336,842	100%	None
June 30, 2004	\$ 6,627,182	100%	None
June 30, 2003	\$ 6,316,504	100%	None

Trend Information for the Lynchburg City Schools			
Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2005	\$ 4,636,607	100%	None
June 30, 2004	\$ 4,065,368	100%	None
June 30, 2003	\$ 3,824,781	100%	None

**Post Retirement Health Care Benefits:**

In addition to providing pension benefits, City policy allows the City to provide certain health care benefits to retired full-time employees. Substantially all of the City's employees may become eligible for these benefits if they reach normal retirement age while working for the City. At June 30, 2005, there were 479 employees eligible to receive these benefits. The cost of providing these benefits is recognized as paid and was approximately \$1,385,230 for 2005.

## CITY OF LYNCHBURG, VIRGINIA

### Notes to Financial Statements

As of June 30, 2005

#### **Note 13. Leases**

##### Lessee:

Operating leases have original terms from one month to 60 months and in certain instances allow cancellation if funds are not appropriated for each year's payments.

At June 30, future minimum lease payments are as follows:

Fiscal Year	Operating Leases	
	Governmental Activities	Component Unit
2006	\$ 292,972	\$ 269,225
2007	190,737	270,556
2008	117,357	203,826
2009	70,424	-
2010-2014	352,120	-
2015-2019	230,264	-
2020-2021	79,920	-
	<u>\$ 1,333,794</u>	<u>\$ 743,607</u>

For 2005, the City incurred rental expenditures of \$332,986 and \$51,064 in the General Fund and Special Revenue Funds, respectively, and rental expense of \$39,799 in the Enterprise Fund. For 2005, the Schools incurred rental expenditures of \$407,000.

##### Lessor:

The City is the lessor of certain airport facilities and other buildings under various operating leases for terms ranging from one to nine years. Future minimum lease payments to be received are as follows:

Year ending June 30	Future Minimum Lease Payments
2006	\$ 467,612
2007	420,667
2008	327,994
2009	308,878
2010	175,707
2011-2013	<u>401,394</u>
Total future minimum rentals	<u>\$ 2,102,252</u>

The amounts above do not include contingent rentals, which may be received under certain leases based on usage and sales. Rental income for the year ended June 30, approximated \$2,816,999 including \$2,057,947 in contingent rentals.

## CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2005

### **Note 14. Risk Management**

The Risk Management Programs of the City are as follows:

Workers' Compensation: The City is self-insured for workers' compensation claims. All settled claims are paid through the General Fund. The liability for worker's compensation claims, including an estimate of incurred but not reported claims based on prior experience, to be paid in the next fiscal year and in future years is reflected in the statement of net assets. Total claims paid for the year ended June 30, 2005 amounted to approximately \$73,175.

General Liability and Other: The City is self-insured for general liability and automobile liability claims and purchases insurance coverage for risks related to property, boiler and machinery, surety bonds, and airport liability. City property is insured up to a limit of \$259,084,552 per occurrence. Other liability policies provide up to \$60,000,000 coverage in the aggregate. Police professional liability and public officials' liability claims with a \$500,000 deductible per claim are covered through a policy with the States Self Insurance Risk Group. Total premiums for purchased coverage for the year ended June 30, 2005 were approximately \$504,482. The City has designated a portion of its fund balance in the General Fund to fund future general liability claims. City management believes any incurred but not reported claims at June 30, 2005 would be insignificant.

Healthcare: The City's professionally administered self-insurance program provides healthcare coverage for employees and retirees of the City on a cost-plus basis. Dependents of employees and retirees are also covered by the program provided they pay a premium to the City. Under the program, the City is obligated for claims payments and administrative costs. A stop loss insurance contract executed with an insurance carrier covers claims in excess of \$150,000 per covered individual per contract year. Total claims settlements did not exceed coverage for the last three years. For the year ended June 30, 2005, total claims expense of approximately \$6,347,893, which did not exceed the stop loss provisions, was incurred. Administrative fees and stop loss premiums for the year ended June 30, 2005 totaled approximately \$544,149. Estimated incurred but not reported claims at June 30, 2005 based on prior experience, totaled \$675,081 and have been funded by the City.

Changes in aggregate liabilities were as follows:

			Beginning of Year	Other	Claims and Reserves	Claim Payments	End of Year
Workers' Compensation	2005	\$	407,299	\$ -	\$ 452,610	\$ 312,599	\$ 547,310
	2004	\$	937,282	\$ (356,123)	\$ 337,036	\$ 510,896	\$ 407,299
General/Automotive Liability	2005	\$	41,500	\$ -	\$ 151,872	\$ 177,504	\$ 15,868
	2004	\$	60,000	\$ -	\$ 21,201	\$ 39,701	\$ 41,500
Healthcare	2005	\$	750,000	\$ -	\$ 6,385,078	\$ 6,347,893	\$ 787,185
	2004	\$	254,652	\$ 238,054	\$ 6,344,132	\$ 6,086,838	\$ 750,000

General/Automotive Liability and Healthcare are considered current liabilities and are included in accounts payable and accrued liabilities in the Statement of Net Assets. Workers' Compensation breakdown between current and noncurrent is shown in Note 9.

## CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2005

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### ***Note 14. Risk Management (Continued)***

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The Risk Management Program of the Schools is as follows:

**Healthcare:** The Schools' professionally administered self-insurance program provides healthcare coverage for employees and retirees of the Schools on a cost-plus basis. Dependents of employees and retirees are also covered by the program provided they pay a premium to the Schools. Under the program, the Schools are obligated for claims payments and administrative costs. A stop loss insurance contract executed with an insurance carrier covers claims in excess of \$125,000 per covered individual per contract year. Total claims settlements did not exceed coverage for the last three years. For the year ended June 30, 2005, total claims expense of approximately \$6,098,295, which did not exceed the stop loss provisions, was incurred. Administrative fees and stop loss premiums for the year ended June 30, 2005 totaled approximately \$597,662. Estimated incurred but not reported claims at June 30, 2005 based on prior experience, totaled \$832,674 and have been funded by the Schools.

Changes in aggregate liabilities were as follows:

		Beginning of Year	Claims and Reserves	Claim Payments	End of Year
Healthcare	2005	\$ 1,305,387	\$ 5,776,965	\$ 6,098,295	\$ 984,057
	2004	\$ 1,307,035	\$ 6,107,466	\$ 6,109,114	\$ 1,305,387

### ***Note 15. Significant Transactions of the City and Discretely Presented Component Unit-School Board***

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Certain transactions between the City and School Board component unit are explained here to provide a more informed understanding of the operational relationship of the two entities and how such transactions are presented in the financial statements.

1. The School Board can neither levy taxes nor incur debt under Virginia law. Therefore, the City issues debt "on behalf" of the School Board. The debt obligation is recorded as a liability of the City's governmental activities. The proceeds from the debt issued "on behalf" of the School Board are recorded in the City's General Fund. Money in an amount equal to the proceeds received is then provided to the School Board to pay for capital expenditures. Any unspent money at year-end is reported as deposits and investments of the City in the School Capital Projects Fund.
2. The primary government's budgeting process provides funding in the City General Fund for School Board component unit debt service payments. GAAP requires that debt issued "on behalf" of the School Board and related debt service payments be reported by the primary government for financial reporting purposes. Therefore, debt service payments for Schools' bonded debt is reported as part of the primary government for financial reporting purposes in the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds. Debt and related debt service for other than bonded debt is reported by the School Board.
3. If all economic resources associated with school activities were reported with the School Board, its total expenses would be \$95,685,335. That expense is obtained as follows:

Expenses of School Board – Component Unit (Exhibit 2)	\$ 77,823,826
Principal and other debt service expenses included in primary government	<u>17,861,509</u>
Total expenses/expenditures for School activities	<u>\$ 95,685,335</u>

## CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2005

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### *Note 16. Commitments and Contingencies*

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#### Combined Sewer Overflow:

In October 1989, the City completed its update of the combined sewer overflow ("CSO") segment of the 1978 study regarding system inflow/infiltration. The purpose of this study update was to provide a cost-effective plan for CSO control. After detailed evaluation of a wide variety of control alternatives, this study update/plan concluded that sewer separation is the most cost-effective control option. Updated estimates performed in 2000 indicate that the total remaining cost of CSO control, including related work such as sewer replacement/overhaul and street paving will total approximately \$284,000,000 in 2005 dollars. On August 19, 1994, the Virginia Department of Environmental Quality ("VDEQ") issued the City's sewage discharge permit and consent special order continuing the terms and conditions that will govern implementation of the City's CSO control plan. The permit requires the City to implement the CSO control plan and to undertake certain combined sewer management practices designed to minimize CSO discharge until the sewer system is completely separated. The order establishes a compliance schedule and project priority for implementation of the CSO control plan.

The compliance schedule does not contain fixed dates for implementing the CSO control plan, but rather provides for implementation based on criteria reflecting the limits of the City's financial capability. The Special Order requires the City to maintain a sewer operating fund debt coverage ratio within a range of 1.1 to 1.5 and reserve funds to equal no more than 25 percent of the subsequent year's budgeted operating expenditures. The City is currently implementing the CSO control plan in accordance with the requirements of its permit and consent order. Further, the City is required by the consent order to submit annual reports, including independent rate consultant reports, to VDEQ on the City's compliance with the order and its progress with CSO control plan implementation.

#### Construction and Related Commitments:

At June 30, 2005, the City had outstanding commitments under various construction contracts totaling approximately \$28,819,933.

#### Grant Programs:

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as to being appropriate expenditures under terms of the grants. Such audits could lead to reimbursement to the grantor agencies. City management believes disallowances, if any, would not be material to the financial position of the City at June 30, 2005.

#### Renovation Projects:

In March 2003, the City signed a leasing agreement with a private developer for the renovation of E. C. Glass High School. This arrangement will allow for the use of certain tax credits. The remaining cost for the renovation is estimated to be approximately \$3,749,024. The permanent financing will be through a combination of state literary loans, general obligation bonds and use of tax credits. The City committed to make the private investors whole should the expected tax credit be denied by the taxing authority. The City's maximum exposure for the tax credit guarantee is approximately \$421,475.

#### Arbitrage:

The City has certain debt instruments subject to arbitrage regulations. Management is of the opinion that no amounts will be required to be rebated.

## **CITY OF LYNCHBURG, VIRGINIA**

Notes to Financial Statements

As of June 30, 2005

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### ***Note 17. Subsequent Events***

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#### Capital Leases:

Subsequent to year-end, the discretely presented component-unit School Board obtained \$500,000 of capital lease to finance capital additions.

#### Business Personal Property Tax Refund:

The City has been contacted by a local corporate taxpayer regarding its error in filing Business Personal Property Taxes. The taxpayer has requested a refund. Discussions are underway to determine the amount, which is estimated by management not to exceed \$750,000; and a multi-year repayment plan.

### ***Note 18. New Accounting Standard***

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The Governmental Accounting Standards Board ("GASB") has issued its Statement No. 45 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The Statement establishes standards for the measurement, recognition and display of OPEB expense and related liabilities in the financial statements. While management has not completed the process of evaluating the impact that will result from adoption of the standard, an initial estimate of expected cost has been performed by an actuarial. The actuarial report states that the five year projected Net OPEB Obligation, at the end of the first year of implementation, is estimated to be \$3,386,797. The estimate was based on current policies regarding retiree health coverage. The requirements of the Statement are effective in three phases based on the government's annual revenues, with the earliest effective date being for the year ended June 30, 2008.

# CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2005

## **Note 19. Restatement of Fund Balances and Net Assets**

The following is a summary of the restatements of fund balances/net assets effective June 30, 2005:

	Primary Government				
	General Fund	Other Governmental Funds	Governmental Activities	Sewer Fund	Business – Type Activities
Fund Balance / Net Assets					
June 30, 2004 as previously stated	\$ 23,763,442	\$ 19,049,154	\$ 168,163,011	\$ 74,196,625	\$ 134,995,055
Restatement to:					
Expense Carter Glass Project	-	-	(459,742)	-	-
Record June 30, 2004 return of School funding	58,000	-	58,000	-	-
Record Blue Ridge Regional Jail refund	-	-	520,612	-	-
Record revenues related to the Lynchburg Soccer Agreement	-	141,880	141,880	-	-
To eliminate discount amount related to Due From Counties' share of debt for the Regional Wastewater Treatment Plant.	-	-	-	1,450,103	1,450,103
Net change in fund balance/net assets	58,000	141,880	260,750	1,450,103	1,405,103
Fund balance/Net assets June 30, 2004 as restated	\$ 23,821,442	\$ 19,191,034	\$ 168,423,761	\$ 75,646,728	\$ 136,445,158

## **REQUIRED SUPPLEMENTAL INFORMATION**

**Required Supplemental Information**  
**Schedule of Funding Progress for Defined Benefit Pension Plan**  
**As of June 30, 2005**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
A. City of Lynchburg						
June 30, 2004	\$ 152,274,985	\$ 201,641,348	\$ 49,366,363	75.52%	\$ 42,326,002	116.63%
June 30, 2003	\$ 150,984,895	\$ 189,455,715	\$ 38,470,820	79.69%	\$ 41,022,649	93.78%
June 30, 2002	\$ 150,775,982	\$ 176,068,222	\$ 25,292,240	85.63%	\$ 40,610,667	62.28%
B. Lynchburg City Schools Non-professional Employees						
June 30, 2004	\$ 8,121,421	\$ 8,826,809	\$ 705,388	92.01%	\$ 3,044,001	23.17%
June 30, 2003	\$ 8,153,179	\$ 8,488,666	\$ 335,487	96.05%	\$ 3,029,056	11.08%
June 30, 2002	\$ 8,194,891	\$ 7,880,342	\$ (314,549)	103.99%	\$ 3,233,028	-9.73%

## **OTHER SUPPLEMENTAL INFORMATION**

## **CITY OF LYNCHBURG, VIRGINIA**

### **Nonmajor Governmental Funds As of June 30, 2005**

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#### Nonmajor Governmental Funds:

Nonmajor governmental funds consist of special revenue and capital projects funds.

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Funds in this category include:

- City Federal/State Aid Projects Fund – Accounts for various federal and state grants for such purposes as building projects, certain social service and community development programs, and public safety.
- Community Development Block Grant Fund – Accounts for revenues from the Department of Housing and Urban Development which are used for various development projects.
- Museum System Fund – Accounts for revenues received in support of the City's various museums.
- Lynchburg Business Development Centre Fund – Accounts for revenues received to support a local business incubator and for monies received from the Economic Development Administration for a revolving loan fund and certain other assistance.
- Detention Home Fund – Accounts for revenues received and expenditures made to support the operations of the City's Juvenile Detention Home.
- Law Library Fund – Accounts for fees received to support the operation of the Law Library.
- Forfeited Assets Fund – Accounts for revenues received from the sale of confiscated assets which are related to illegal drug sales and are used for law enforcement expenditures for drug related activities.
- Lynchburg Expressway Appearance Fund – Accounts for the revenues and expenditures associated with beautification of the Lynchburg Expressway Area.
- Comprehensive Services Act Fund – Accounts for revenues received and expenditures made to support the Comprehensive Services Act for At-Risk Youth and Families adopted by the Virginia General Assembly.
- E-911 Fund – Accounts for revenues for the operations and capital expenditures of the E-911 system. In addition, accounts for the City's share of ownership of the Central Virginia Regional Radio Communication Board.
- Home Investment Trust Fund – Accounts for revenues received from the Department of Housing and Urban Development for support of affordable housing needs in the City.
- Technology Services Fund – Accounts for revenues received to support the acquisition of computer equipment and maintaining network equipment, servers, and the A/S 400.
- Baseball Stadium Fund – Accounts for revenues received at the Lynchburg City Stadium.

Capital Projects Funds account for all resources used for the acquisition or construction of capital facilities except those financed by Enterprise Funds and federal and state grants. Funds in this category include:

- City Capital Projects Fund – Accounts for budgeted capital projects approved by City Council. The major source of this fund's resources is bond proceeds.
- Highway Projects Grant Fund – Accounts for federal and state grants received for highway projects.
- School Capital Projects Fund – Accounts for budgeted capital projects approved by the Lynchburg City Schools related to educational activities.

## CITY OF LYNCHBURG, VIRGINIA

## EXHIBIT A-1

Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2005

	Special Revenue Total	Capital Projects Total	Total Nonmajor Governmental
<b>Assets</b>			
Cash and cash equivalents	\$ 4,042,756	\$ 5,397,049	\$ 9,439,805
Receivables, net of allowance			
Other	450,207	13,830	464,037
Due from other funds	870	-	870
Due from component units	155,000	-	155,000
Due from other governments	2,346,685	500,000	2,846,685
Other Assets	213	-	213
Restricted assets:			
Cash and cash equivalents	96,592	473,751	570,343
<b>Total assets</b>	<u>\$ 7,092,323</u>	<u>\$ 6,384,630</u>	<u>\$ 13,476,953</u>
<b>Liabilities and fund balances</b>			
Liabilities			
Accounts payable	\$ 1,337,122	\$ 1,888,709	\$ 3,225,831
Accrued liabilities	18,440	-	18,440
Retainage payable	-	687,738	687,738
Due to other governments	81,152	-	81,152
Due to other funds	1,402,143	175,894	1,578,037
Deferred revenue	81,252	-	81,252
<b>Total liabilities</b>	<u>2,920,109</u>	<u>2,752,341</u>	<u>5,672,450</u>
Fund balances			
Reserved for:			
Encumbrances	708,200	6,232,928	6,941,128
Unreserved:			
Unreserved, reported in special revenue			
Designated	591,735	-	591,735
Undesignated	2,872,279	-	2,872,279
Unreserved, reported in capital projects			
Undesignated	-	(2,600,639)	(2,600,639)
<b>Total fund balances</b>	<u>4,172,214</u>	<u>3,632,289</u>	<u>7,804,503</u>
<b>Total liabilities and fund balances</b>	<u>\$ 7,092,323</u>	<u>\$ 6,384,630</u>	<u>\$ 13,476,953</u>

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Fiscal Year Ended June 30, 2005**

	<u>Special Revenue Total</u>	<u>Capital Projects Total</u>	<u>Total Nonmajor Governmental</u>
<b>Revenues</b>			
Taxes	\$ 993,905	\$ -	\$ 993,905
Intergovernmental	9,269,693	3,475,269	12,744,962
Revenue from use of money and property	861,784	1,000	862,784
Charges for services	3,525,629	-	3,525,629
Miscellaneous	718,496	207,270	925,766
	<u>15,369,507</u>	<u>3,683,539</u>	<u>19,053,046</u>
Total revenues			
<b>Expenditures</b>			
Current operating expenditures			
General government	273,295	-	273,295
Judicial	1,037,223	-	1,037,223
Public safety	4,066,567	-	4,066,567
Public works	36,063	5,694,304	5,730,367
Health and human services	5,139,021	-	5,139,021
Cultural and recreational	1,304,747	-	1,304,747
Community development	2,477,224	-	2,477,224
Education	-	589,209	589,209
Capital outlay			
Capital general government	-	13,049,200	13,049,200
Debt Service			
Principal retirements	407,436	-	407,436
Interest payments and other fiscal charges	338,606	-	338,606
Issuance costs	28,783	2,610	31,393
	<u>15,108,965</u>	<u>19,335,323</u>	<u>34,444,288</u>
Total expenditures			
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>260,542</u>	<u>(15,651,784)</u>	<u>(15,391,242)</u>
<b>Other financing sources (uses)</b>			
Issuance of refunding bonds	1,929,059	-	1,929,059
Issuance of refunding capital lease	1,679,825	-	1,679,825
Payments to escrow agent	(3,911,587)	-	(3,911,587)
Capital contributions	-	1,938,525	1,938,525
Transfers in	1,380,054	2,356,435	3,736,489
Transfers out	(1,222,111)	(145,489)	(1,367,600)
	<u>(144,760)</u>	<u>4,149,471</u>	<u>4,004,711</u>
Total other financing sources (uses)			
<b>Net changes in fund balances</b>	115,782	(11,502,313)	(11,386,531)
<b>Fund balances - beginning, as restated (Note 19)</b>	<u>4,056,432</u>	<u>15,134,602</u>	<u>19,191,034</u>
<b>Fund balances - ending</b>	<u>\$ 4,172,214</u>	<u>\$ 3,632,289</u>	<u>\$ 7,804,503</u>

Combining Balance Sheet  
Nonmajor Special Revenue Funds  
June 30, 2005

	City Federal State Aid Projects	Community Development Block Grant	Lynchburg Business Development Centre	Museum System	Law Library	Forfeited Assets	E-911
<b>Assets</b>							
Cash and cash equivalents	\$ 441,307	\$ -	\$ 171	\$ 15,047	\$ -	\$ 269,318	\$ 965,816
Receivables, net of allowance							
Other	28,976	244,675	-	-	-	-	74,141
Due from other funds	-	-	-	-	-	-	-
Due from component units	-	-	155,000	-	-	-	-
Due from other governments	522,247	342,393	-	-	-	2,856	-
Other Assets	-	-	213	-	-	-	-
Restricted assets:							
Cash and cash equivalents	80,725	-	-	-	-	-	15,867
<b>Total assets</b>	<u>\$ 1,073,255</u>	<u>\$ 587,068</u>	<u>\$ 155,384</u>	<u>\$ 15,047</u>	<u>\$ -</u>	<u>\$ 272,174</u>	<u>\$ 1,055,824</u>
<b>Liabilities and fund balances</b>							
<b>Liabilities</b>							
Accounts payable	\$ 181,918	\$ 147,665	\$ -	\$ -	\$ 2,829	\$ 6,046	\$ 18,596
Accrued liabilities	8,442	158	-	-	-	-	-
Due to other governments	80,725	102	-	-	-	-	-
Due to other funds	62,031	368,167	30,000	-	3,048	-	30,900
Deferred revenue	24,229	57,023	-	-	-	-	-
<b>Total liabilities</b>	<u>357,345</u>	<u>573,115</u>	<u>30,000</u>	<u>-</u>	<u>5,877</u>	<u>6,046</u>	<u>49,496</u>
<b>Fund balances</b>							
Reserved for:							
Encumbrances	614,457	52	-	-	-	6,996	68,855
Unreserved:							
Unreserved, reported in special revenue							
Designated	55,520	46,772	-	-	-	259,132	155,311
Undesignated	45,933	(32,871)	125,384	15,047	(5,877)	-	782,162
<b>Total fund balances</b>	<u>715,910</u>	<u>13,953</u>	<u>125,384</u>	<u>15,047</u>	<u>(5,877)</u>	<u>266,128</u>	<u>1,006,328</u>
<b>Total liabilities and fund balances</b>	<u>\$ 1,073,255</u>	<u>\$ 587,068</u>	<u>\$ 155,384</u>	<u>\$ 15,047</u>	<u>\$ -</u>	<u>\$ 272,174</u>	<u>\$ 1,055,824</u>

## CITY OF LYNCHBURG, VIRGINIA

EXHIBIT B-1  
PAGE 2Combining Balance Sheet  
Nonmajor Special Revenue Funds  
June 30, 2005

	Compre- hensive Services Act	Lynchburg Expressway Appearance	Home Investment Trust	Detention Home	Technology Services	Baseball Stadium	Total Nonmajor Special Revenue
<b>Assets</b>							
Cash and cash equivalents	\$ 354,437	\$ 41,312	\$ -	\$ 198,732	\$ 1,454,678	\$ 301,938	\$ 4,042,756
Receivables, net of allowance							
Other	-	-	-	-	12,908	89,507	450,207
Due from other funds	-	-	-	-	870	-	870
Due from component units	-	-	-	-	-	-	155,000
Due from other governments	1,177,052	-	199,741	102,396	-	-	2,346,685
Other Assets	-	-	-	-	-	-	213
Restricted assets:							
Cash and cash equivalents	-	-	-	-	-	-	96,592
<b>Total assets</b>	<u>\$ 1,531,489</u>	<u>\$ 41,312</u>	<u>\$ 199,741</u>	<u>\$ 301,128</u>	<u>\$ 1,468,456</u>	<u>\$ 391,445</u>	<u>\$ 7,092,323</u>
<b>Liabilities and fund balance</b>							
<b>Liabilities</b>							
Accounts payable	\$ 849,792	\$ 152	\$ 19,911	\$ 22,631	\$ 64,262	\$ 23,320	\$ 1,337,122
Accrued liabilities	257	-	-	9,583	-	-	18,440
Due to other governments	75	-	-	250	-	-	81,152
Due to other funds	672,426	-	169,518	66,053	-	-	1,402,143
Deferred revenue	-	-	-	-	-	-	81,252
<b>Total liabilities</b>	<u>1,522,550</u>	<u>152</u>	<u>189,429</u>	<u>98,517</u>	<u>64,262</u>	<u>23,320</u>	<u>2,920,109</u>
<b>Fund balances</b>							
Reserved for:							
Encumbrances	-	2,348	67	3,504	11,921	-	708,200
Unreserved:							
Unreserved, reported in special revenue							
Designated	-	-	-	75,000	-	-	591,735
Undesignated	8,939	38,812	10,245	124,107	1,392,273	368,125	2,872,279
<b>Total fund balances</b>	<u>8,939</u>	<u>41,160</u>	<u>10,312</u>	<u>202,611</u>	<u>1,404,194</u>	<u>368,125</u>	<u>4,172,214</u>
<b>Total liabilities and fund balances</b>	<u>\$ 1,531,489</u>	<u>\$ 41,312</u>	<u>\$ 199,741</u>	<u>\$ 301,128</u>	<u>\$ 1,468,456</u>	<u>\$ 391,445</u>	<u>\$ 7,092,323</u>

## CITY OF LYNCHBURG, VIRGINIA

## EXHIBIT B-2

## PAGE 1

Combining Statement of Revenues, Expenditures  
and Changes in Fund Balances  
Nonmajor Special Revenue Funds  
For the Fiscal Year Ended June 30, 2005

	City Federal State Aid Projects	Community Development Block Grant	Lynchburg Business Development Centre	Museum System	Law Library	Forfeited Assets	E-911
<b>Revenues</b>							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 972,043
Intergovernmental	3,357,875	1,029,232	-	-	-	166,933	-
Revenue from use of money and property	1,749	-	24,228	-	-	2,925	31,741
Charges for services	136,103	52,845	-	9,913	54,814	-	-
Miscellaneous	109,626	26,079	-	371	-	-	-
Total revenues	3,605,353	1,108,156	24,228	10,284	54,814	169,858	1,003,784
<b>Expenditures</b>							
Current operating expenditures							
General government	-	-	-	-	-	-	-
Judicial	1,003,256	-	-	-	-	33,967	-
Public safety	1,088,659	-	-	-	-	57,324	526,784
Public works	-	-	-	-	-	-	-
Health and human services	772,803	-	-	-	-	-	-
Cultural and recreational	20,514	-	-	6,145	35,339	-	-
Community development	783,024	1,128,012	24,228	-	-	-	-
Debt service							
Principal retirements	-	-	-	-	-	-	223,924
Interest payments and other fiscal charges	-	-	-	-	-	-	97,087
Issuance costs	-	-	-	-	-	-	16,602
Total expenditures	3,668,256	1,128,012	24,228	6,145	35,339	91,291	864,397
<b>Excess (deficiency) of revenues over (under) expenditures</b>	(62,903)	(19,856)	-	4,139	19,475	78,567	139,387
<b>Other financing sources (uses)</b>							
Issuance of refunding bonds	-	-	-	-	-	-	382,502
Issuance of refunding capital lease	-	-	-	-	-	-	1,679,825
Payments to escrow agent	-	-	-	-	-	-	(2,381,726)
Transfers in	189,365	-	-	-	-	-	-
Transfers out	(765,961)	-	-	-	(26,150)	-	(105,000)
Total other financing sources (uses)	(576,596)	-	-	-	(26,150)	-	(424,399)
<b>Net changes in fund balances</b>	(639,499)	(19,856)	-	4,139	(6,675)	78,567	(285,012)
<b>Fund balances - beginning</b>	1,355,409	33,809	125,384	10,908	798	187,561	1,291,340
<b>Fund balances - ending</b>	\$ 715,910	\$ 13,953	\$ 125,384	\$ 15,047	\$ (5,877)	\$ 266,128	\$ 1,006,328

Combining Statement of Revenues, Expenditures  
and Changes in Fund Balances  
Nonmajor Special Revenue Funds  
For the Fiscal Year Ended June 30, 2005

	Compre- hensive Services Act	Lynchburg Expressway Appearance	Home Investment Trust	Detention Home	Technology Services	Baseball Stadium	Total Nonmajor Special Revenue
<b>Revenues</b>							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21,862	\$ 993,905
Intergovernmental	2,891,254	-	556,798	1,267,601	-	-	9,269,693
Revenue from use of money and property	-	-	-	-	24,645	776,496	861,784
Charges for services	1,548,820	-	-	1,469,900	-	253,234	3,525,629
Miscellaneous	146,950	71,577	2,133	588	37,786	323,386	718,496
<b>Total revenues</b>	<b>4,587,024</b>	<b>71,577</b>	<b>558,931</b>	<b>2,738,089</b>	<b>62,431</b>	<b>1,374,978</b>	<b>15,369,507</b>
<b>Expenditures</b>							
Current Operating Expenditures							
General government	-	-	-	5,789	267,506	-	273,295
Judicial	-	-	-	-	-	-	1,037,223
Public safety	-	-	-	2,393,800	-	-	4,066,567
Public works	-	36,063	-	-	-	-	36,063
Health and human services	4,366,218	-	-	-	-	-	5,139,021
Cultural and recreational	-	-	-	-	-	1,242,749	1,304,747
Community development	-	-	541,960	-	-	-	2,477,224
Debt Service							
Principal retirements	-	-	-	142,902	-	40,610	407,436
Interest payments and other fiscal charges	-	-	-	114,203	-	127,316	338,606
Issuance costs	-	-	-	11,136	-	1,045	28,783
<b>Total expenditures</b>	<b>4,366,218</b>	<b>36,063</b>	<b>541,960</b>	<b>2,667,830</b>	<b>267,506</b>	<b>1,411,720</b>	<b>15,108,965</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>220,806</b>	<b>35,514</b>	<b>16,971</b>	<b>70,259</b>	<b>(205,075)</b>	<b>(36,742)</b>	<b>260,542</b>
<b>Other financing sources (uses)</b>							
Issuance of refunding bonds	-	-	-	1,223,613	-	322,944	1,929,059
Issuance of refunding capital lease	-	-	-	-	-	-	1,679,825
Payments to escrow agent	-	-	-	(1,207,963)	-	(321,898)	(3,911,587)
Transfers in	151,876	-	5,222	75,353	761,727	196,511	1,380,054
Transfers out	-	-	-	-	(25,000)	(300,000)	(1,222,111)
<b>Total other financing sources (uses)</b>	<b>151,876</b>	<b>-</b>	<b>5,222</b>	<b>91,003</b>	<b>736,727</b>	<b>(102,443)</b>	<b>(144,760)</b>
<b>Net changes in fund balances</b>	<b>372,682</b>	<b>35,514</b>	<b>22,193</b>	<b>161,262</b>	<b>531,652</b>	<b>(139,185)</b>	<b>115,782</b>
<b>Fund balances - beginning</b>	<b>(363,743)</b>	<b>5,646</b>	<b>(11,881)</b>	<b>41,349</b>	<b>872,542</b>	<b>507,310</b>	<b>4,056,432</b>
<b>Fund balances - ending</b>	<b>\$ 8,939</b>	<b>\$ 41,160</b>	<b>\$ 10,312</b>	<b>\$ 202,611</b>	<b>\$ 1,404,194</b>	<b>\$ 368,125</b>	<b>\$ 4,172,214</b>

## CITY OF LYNCHBURG, VIRGINIA

## EXHIBIT C-1

Combining Balance Sheet  
Nonmajor Capital Projects Funds  
June 30, 2005

	City Capital Projects	School Capital Projects	Highway Projects Grant	Total Nonmajor Capital Projects
<b>Assets</b>				
Cash and cash equivalents	\$ 2,782,113	\$ 2,215,620	\$ 399,316	\$ 5,397,049
Receivables, net of allowance				
Other	11,000	2,830	-	13,830
Due from other governments	500,000	-	-	500,000
Restricted assets:	-	-	-	-
Cash and cash equivalents	-	473,751	-	473,751
<b>Total assets</b>	<u>\$ 3,293,113</u>	<u>\$ 2,692,201</u>	<u>\$ 399,316</u>	<u>\$ 6,384,630</u>
<b>Liabilities and fund balances</b>				
Liabilities				
Accounts payable	\$ 1,147,353	\$ 741,356	\$ -	\$ 1,888,709
Retainage payable	104,744	582,994	-	687,738
Due to other funds	175,894	-	-	175,894
<b>Total liabilities</b>	<u>1,427,991</u>	<u>1,324,350</u>	<u>-</u>	<u>2,752,341</u>
Fund Balances				
Reserved for:				
Encumbrances	2,283,985	3,948,943	-	6,232,928
Unreserved:				
Unreserved, reported in capital projects				
Undesignated	(418,863)	(2,581,092)	399,316	(2,600,639)
<b>Total fund balances</b>	<u>1,865,122</u>	<u>1,367,851</u>	<u>399,316</u>	<u>3,632,289</u>
<b>Total liabilities and fund balances</b>	<u>\$ 3,293,113</u>	<u>\$ 2,692,201</u>	<u>\$ 399,316</u>	<u>\$ 6,384,630</u>

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Capital Projects Funds**  
**For the Fiscal Year Ended June 30, 2005**

	<u>City Capital Projects</u>	<u>School Capital Projects</u>	<u>Highway Projects Grant</u>	<u>Total Nonmajor Capital Projects</u>
<b>Revenues</b>				
Intergovernmental	\$ 1,373,539	\$ 1,697,921	\$ 403,809	\$ 3,475,269
Revenue from use of money and property	-	1,000	-	1,000
Miscellaneous	<u>207,270</u>	<u>-</u>	<u>-</u>	<u>207,270</u>
Total revenues	<u>1,580,809</u>	<u>1,698,921</u>	<u>403,809</u>	<u>3,683,539</u>
<b>Expenditures</b>				
Current operating expenditures				
Public works	5,694,304	-	-	5,694,304
Education	-	589,209	-	589,209
Capital outlay				
Capital general government	4,429,266	8,611,166	8,768	13,049,200
Debt service				
Issuance costs	<u>972</u>	<u>1,638</u>	<u>-</u>	<u>2,610</u>
Total expenditures	<u>10,124,542</u>	<u>9,202,013</u>	<u>8,768</u>	<u>19,335,323</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>(8,543,733)</u>	<u>(7,503,092)</u>	<u>395,041</u>	<u>(15,651,784)</u>
<b>Other financing sources (uses)</b>				
Capital contributions	360,000	1,578,525	-	1,938,525
Transfers in	2,356,435	-	-	2,356,435
Transfers out	<u>(145,489)</u>	<u>-</u>	<u>-</u>	<u>(145,489)</u>
Total other financing sources (uses)	<u>2,570,946</u>	<u>1,578,525</u>	<u>-</u>	<u>4,149,471</u>
<b>Net changes in fund balances</b>	<u>(5,972,787)</u>	<u>(5,924,567)</u>	<u>395,041</u>	<u>(11,502,313)</u>
<b>Fund balances - beginning, as restated (Note 19)</b>	<u>7,837,909</u>	<u>7,292,418</u>	<u>4,275</u>	<u>15,134,602</u>
<b>Fund balances - ending</b>	<u>\$ 1,865,122</u>	<u>\$ 1,367,851</u>	<u>\$ 399,316</u>	<u>\$ 3,632,289</u>

**Combining Statement of Fiduciary Net Assets**  
**Agency Funds**  
**June 30, 2005**

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	<b>Special Welfare</b>	<b>Central Virginia Regional Radio Board</b>	<b>Total Agency</b>
	<hr/>	<hr/>	<hr/>
<b>Assets</b>			
Cash and cash equivalents	\$ 85,586	\$ 118,779	\$ 204,365
	<hr/>	<hr/>	<hr/>
<b>Liabilities</b>			
Amounts held for others	85,586	118,779	204,365
	<hr/>	<hr/>	<hr/>
<b>Net Assets</b>	\$ -	\$ -	\$ -
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**Combining Statement of Changes in Fiduciary Assets and Liabilities**  
**Agency Funds**  
**For The Fiscal Year Ended June 30, 2005**

	<b>Balance July 1, 2004</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2005</b>
<b><u>Special Welfare</u></b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 59,968	\$ 231,280	\$ 205,662	\$ 85,586
<b>Liabilities</b>				
Amounts held for others	\$ 59,968	\$ 243,454	\$ 217,836	\$ 85,586
<b><u>Central Virginia Regional Radio Board</u></b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 1,673,338	\$ 19,801,061	\$ 21,355,620	\$ 118,779
<b>Liabilities</b>				
Amounts held for others	\$ 1,673,338	\$ 6,276,424	\$ 7,830,983	\$ 118,779
<b><u>Total All Agency Funds</u></b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 1,733,306	\$ 20,032,341	\$ 21,561,282	\$ 204,365
<b>Liabilities</b>				
Amounts held for others	\$ 1,733,306	\$ 6,519,878	\$ 8,048,819	\$ 204,365

## **CITY OF LYNCHBURG, VIRGINIA**

Discretely Presented Component Unit - Lynchburg City Schools  
As of June 30, 2005

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### Discretely Presented Component Unit – Lynchburg City Schools:

The Lynchburg City Schools operates one pre-school, eleven elementary, three middle, and two high schools in the City. The funds and account groups of the schools are described below:

- School Operating Fund – Accounts for the primary operating activities of the Lynchburg City Schools.
- School Federal Aid Projects Fund – Accounts for the various federal and state grants for the educational purposes of the Lynchburg City Schools. Also accounts for the activities of the Central Virginia Governor’s School for Science and Technology, a regional program supported by the City of Lynchburg and four surrounding counties, for which Lynchburg City Schools serve as fiscal agent.
- School Cafeteria Fund – Accounts for revenues received from the sale of food in the Lynchburg City Schools.
- Permanent Fund – Accounts for funds invested with the Greater Lynchburg Community Trust for the support of education.

**Discretely Presented Component Unit - Lynchburg City Schools**  
**Combining Balance Sheet**  
**June 30, 2005**

	<b>School Operating</b>	<b>School Federal Aid</b>	<b>School Cafeteria</b>	<b>Total Government</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 11,574,425	\$ 129,000	\$ 879,738	\$ 12,583,163
Cash and cash equivalents, restricted	244,267	-	-	244,267
Receivables, net	289,668	-	-	289,668
Due from other funds	410,088	-	-	410,088
Due from other governments	1,129,323	1,076,388	76,490	2,282,201
Inventory	-	-	63,183	63,183
Total assets	<u>\$ 13,647,771</u>	<u>\$ 1,205,388</u>	<u>\$ 1,019,411</u>	<u>\$ 15,872,570</u>
<b>Liabilities and fund balances</b>				
Liabilities:				
Accounts payable	\$ 413,902	\$ 3,292	\$ -	\$ 417,194
Due to other funds	-	410,088	-	410,088
Due to primary government	3,893,017	-	-	3,893,017
Deferred revenue	-	129,000	-	129,000
Accrued liabilities	<u>7,801,169</u>	<u>560,712</u>	<u>1,668</u>	<u>8,363,549</u>
Total liabilities	<u>12,108,088</u>	<u>1,103,092</u>	<u>1,668</u>	<u>13,212,848</u>
Fund balances:				
Reserved for:				
Encumbrances	1,295,416	-	-	1,295,416
Capital projects	244,267	-	-	244,267
Inventory	-	-	63,183	63,183
Unreserved:				
Undesignated	<u>-</u>	<u>102,296</u>	<u>954,560</u>	<u>1,056,856</u>
Total fund balances	<u>1,539,683</u>	<u>102,296</u>	<u>1,017,743</u>	<u>2,659,722</u>
<b>Total liabilities and fund balances</b>	<u><u>\$ 13,647,771</u></u>	<u><u>\$ 1,205,388</u></u>	<u><u>\$ 1,019,411</u></u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	2,033,916
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	<u>(2,790,939)</u>
Net assets of governmental activities	<u><u>\$ 1,902,699</u></u>

**Discretely Presented Component Unit - Lynchburg City Schools**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**For the Fiscal Year Ended June 30, 2005**

	<u>School Operating</u>	<u>School Federal Aid</u>	<u>School Cafeteria</u>	<u>Total Governmental</u>
<b>Revenues</b>				
Intergovernmental	\$ 67,442,823	\$ 6,358,504	\$ 2,187,823	\$ 75,989,150
Revenue from use of money and property	2,100	-	589	2,689
Charges for services	324,097	462,552	812,250	1,598,899
Miscellaneous	392,233	141,826	686	534,745
	<u>68,161,253</u>	<u>6,962,882</u>	<u>3,001,348</u>	<u>78,125,483</u>
<b>Total revenues</b>				
<b>Expenditures</b>				
Education:				
Instruction	52,327,742	6,023,732	-	58,351,474
Administration, attendance and health	2,128,927	42,526	-	2,171,453
Pupil transportation services	3,214,586	-	-	3,214,586
Operations and maintenance	7,976,868	35,714	2,537,470	10,550,052
Capital outlay	2,698,587	850,430	92,284	3,641,301
Debt service:				
Principal retirement	724,075	22,858	-	746,933
Interest payments	48,412	13,375	-	61,787
	<u>69,119,197</u>	<u>6,988,635</u>	<u>2,629,754</u>	<u>78,737,586</u>
<b>Total expenditures</b>				
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(957,944)</u>	<u>(25,753)</u>	<u>371,594</u>	<u>(612,103)</u>
<b>Other Financing Sources</b>				
Capital lease proceeds	<u>1,500,000</u>	<u>-</u>	<u>-</u>	<u>1,500,000</u>
<b>Net change in fund balances</b>	<u>542,056</u>	<u>(25,753)</u>	<u>371,594</u>	<u>887,897</u>
<b>Fund balance - beginning</b>	<u>997,627</u>	<u>128,049</u>	<u>646,149</u>	
<b>Fund balance - ending</b>	<u>\$ 1,539,683</u>	<u>\$ 102,296</u>	<u>\$ 1,017,743</u>	

**Amounts reported for governmental activities in the statement of activities are different because:**

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense and by which the cost of disposed assets exceeded the accumulated depreciation of those assets.	337,814
Compensated absences are not due and payable at June 30, and therefore are not reported in the fund statements.	(157,115)
The issuance of long term debt (e.g. capital leases) provides current financial resources to governmental funds, but has no effect on net assets.	(1,500,000)
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but has no effect on net assets.	724,075
Change in net assets of governmental activities.	<u>\$ 292,671</u>

Discretely Presented Component Unit - Lynchburg City Schools  
School Operating Fund  
Schedule of Revenues, Expenditures, and Other Financing Sources (Uses)  
Budget and Actual  
For the Fiscal Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Intergovernmental	\$ 68,889,960	\$ 71,191,338	\$ 71,335,840	\$ 144,502
Revenue from use of money and property	-	-	2,100	2,100
Charges for services	475,500	475,500	324,097	(151,403)
Miscellaneous	169,500	169,500	392,233	222,733
Total revenues	69,534,960	71,836,338	72,054,270	217,932
<b>Expenditures</b>				
Education:				
Instruction	54,100,365	54,426,641	52,327,742	2,098,899
Administration, attendance and health	2,293,499	2,343,499	2,128,927	214,572
Pupil transportation services	3,167,528	3,167,528	3,214,586	(47,058)
Operations and maintenance	7,850,673	7,850,673	7,976,868	(126,195)
Capital outlay	1,145,725	3,594,801	2,698,587	896,214
Debt service	977,170	912,412	772,487	139,925
Total expenditures	69,534,960	72,295,554	69,119,197	3,176,357
<b>Excess of revenues over expenditures</b>	-	(459,216)	2,935,073	3,394,289
<b>Other Financing Sources</b>				
Capital lease proceeds	-	1,500,000	1,500,000	-
Net change in fund balances	\$ -	\$ 1,040,784	4,435,073	\$ 3,394,289
Less return of funds to the City			(3,893,017)	
			\$ 542,056	

**Discretely Presented Component Unit - Lynchburg City Schools**  
**Agency Fund**  
**For the Fiscal Year Ended June 30, 2005**

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	<u>Agency Fund</u>
<b>Assets</b>	
Investments	<u>\$        95,378</u>
<b>Liabilities</b>	
Amounts held for others	<u>\$        95,378</u>

**Combining Statement of Net Assets  
Other Component Units  
June 30, 2005**

	<b>Component Units</b>		
	<b>Business Development Centre, Inc.</b>	<b>Greater Lynchburg Transit Company</b>	<b>Total</b>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 853,523	\$ 16,214	\$ 869,737
Receivables (net of allowance for uncollectibles)	411,979	36,930	448,909
Due from primary government	-	16,716	16,716
Due from other governments	-	455,385	455,385
Prepaid and other assets	-	37,754	37,754
Inventory	-	142,707	142,707
Capital assets:			
Non-depreciable	-	55,031	55,031
Depreciable	3,640	4,026,192	4,029,832
<b>Total assets</b>	<b>1,269,142</b>	<b>4,786,929</b>	<b>6,056,071</b>
<b>Liabilities</b>			
Accounts payable and other current liabilities	741,529	452,059	1,193,588
Notes payable, bank	-	180,000	180,000
Due to primary government	155,000	-	155,000
<b>Total liabilities</b>	<b>896,529</b>	<b>632,059</b>	<b>1,528,588</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	-	4,081,223	4,081,223
Restricted net assets	6,186	-	6,186
Net assets, unrestricted	366,427	73,647	440,074
<b>Total net assets</b>	<b>\$ 372,613</b>	<b>\$ 4,154,870</b>	<b>\$ 4,527,483</b>

**Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Other Component Units**  
**For the Fiscal Year Ended June 30, 2005**

	<b>Component Units</b>		
	<b>Business Development Centre, Inc.</b>	<b>Greater Lynchburg Transit Company</b>	<b>Total</b>
<b>Operating revenues</b>			
Charges for services and other operating revenues	\$ 266,942	\$ 924,131	\$ 1,191,073
Miscellaneous	12,800	82,034	94,834
Total operating revenues	279,742	1,006,165	1,285,907
<b>Operating expenses</b>			
Operations	376,956	2,116,509	2,493,465
Administration	5,948	877,325	883,273
Maintenance and repairs	20,965	728,614	749,579
Total operating expenses	403,869	3,722,448	4,126,317
<b>Operating loss</b>	(124,127)	(2,716,283)	(2,840,410)
<b>Nonoperating revenue (expense)</b>			
Operating funds from City of Lynchburg	-	688,991	688,991
Operating funds from Counties	-	16,785	16,785
Donations and grants	174,638	2,010,507	2,185,145
Experimental grant expenses	-	139	139
Gain on sale of property and equipment	-	(14,753)	(14,753)
Depreciation	(280)	(979,825)	(980,105)
Total nonoperating revenue (expense)	174,358	1,721,844	1,896,202
Capital contributions	-	787,648	787,648
<b>Change in net assets</b>	50,231	(206,791)	(156,560)
<b>Total net assets - beginning</b>	322,382	4,361,661	4,684,043
<b>Total net assets - ending</b>	\$ 372,613	\$ 4,154,870	\$ 4,527,483

**Combining Statement of Cash Flows  
Other Component Units  
For the Fiscal Year Ended June 30, 2005**

	<b>Business Development Centre, Inc.</b>	<b>Greater Lynchburg Transit Company</b>	<b>Total</b>
<b>OPERATING ACTIVITIES</b>			
Cash received from operations	\$ 537,853	\$ 1,008,558	\$ 1,546,411
Cash paid to employees and suppliers	(399,673)	(3,708,456)	(4,108,129)
Cash paid for interest	(4,158)	-	(4,158)
New loans disbursed	(43,000)	-	(43,000)
Net cash provided by (used in) operating activities	91,022	(2,699,898)	(2,608,876)
<b>NONCAPITAL FINANCING ACTIVITIES</b>			
Subsidies	-	2,656,766	2,656,766
Operating grants and contributions	174,639	-	174,639
Net cash provided by noncapital financing activities	174,639	2,656,766	2,831,405
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Capital contributions	-	555,131	555,131
Principal payments to bank	-	(70,000)	(70,000)
Additions to capital assets	-	(792,473)	(792,473)
Increase in accounts payable for capital assets	-	315,487	315,487
Proceeds from sale of capital assets	-	-	-
Proceeds from bank	-	-	-
Experimental grant and other expenses	-	139	139
Net cash provided by capital and related financing activities	-	8,284	8,284
Net increase (decrease) in cash and cash equivalents/investments	265,661	(34,848)	230,813
<b>CASH AND CASH EQUIVALENTS/INVESTMENTS</b>			
Beginning of year	587,862	51,062	638,924
End of year	\$ 853,523	\$ 16,214	\$ 869,737
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>			
Operating loss	\$ (124,407)	\$ (2,716,283)	\$ (2,840,690)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation	280	-	280
Decrease in receivables	215,111	2,393	217,504
Increase in prepaid expenses and other assets	-	(25,191)	(25,191)
Increase in accounts payable and other current liabilities	7,012	39,183	46,195
Decrease in amounts due to primary government	(6,974)	-	(6,974)
Total adjustments	215,429	16,385	231,814
Net cash provided by (used in) operating activities	\$ 91,022	\$ (2,699,898)	\$ (2,608,876)

## **SUPPLEMENTAL SCHEDULES**

**Computation of Legal Debt Margin  
For the Fiscal Year Ended June 30, 2005**

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Total assessed value of real estate	<u>\$ 3,381,554,640</u>
Legal Debt Limit - 10% of total assessed value of real estate	338,155,464
Less bonded debt as of June 30, 2005	<u>(156,052,336)</u>
Legal debt margin	<u>\$ 182,103,128</u>

**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2005**

Federal Granting Agency/ Recipient State Agency/ Grant Program	Federal CFDA Number	Federal Expenditures
<b>PRIMARY GOVERNMENT</b>		
<b>DEPARTMENT OF AGRICULTURE</b>		
Passed through Commonwealth of Virginia:		
Department of Juvenile Justice:		
School Breakfast Program	10.553	\$ 21,339
National School Lunch Program	10.555	4,753
Department of Social Services:		
Food Stamp Administration	10.561	751,654
<b>DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>		
Passed through Commonwealth of Virginia:		
Department of Social Services:		
Family Preservation and Support	93.556	120,217
TANF Block Grant	93.558	1,116,669
Refugee and Entrant Assistance State - Administered Programs	93.566	2,283
Low Income Energy Assistance	93.568	41,960
Child Care Assistance	93.575	610,360
Early Learning Opportunity	93.577	14,974
Child Care Development Fund	93.596	582,795
Chafee Education and Training Vouchers Program (ETV)	93.599	21,919
Adoption Incentive Program	93.603	7,811
Foster Care - Title IV-E	93.658	1,024,326
Adoption Assistance	93.659	394,152
Social Services Block Grant	93.667	647,490
Independent Living	93.674	86,203
Medicaid Assistance	93.778	638,874
<b>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>		
Direct Payments:		
Community Development Block Grant Program, Entitlement Grants	14.218	1,125,547
Shelter Plus Care	14.238	36,365
Home Investment Partnership Program	14.239	541,961
Lead Hazard Control	14.900	703,765
<b>DEPARTMENT OF JUSTICE</b>		
Direct Payments:		
Young Juvenile Offender	15.540	78,931
Local Law Enforcement Block Grant Program	16.592	44,406
Domestic Violence Block Grant	16.530	90,904
Bulletproof Vest Partnership	16.607	9,635
Community Prosecution and Project Safe Neighborhoods	16.609	194,930
Passed through Commonwealth of Virginia:		
Department of Criminal Justice Services:		
Juvenile Accountability Incentive Block Grant	16.523	11,197
Victim-Witness Services	16.575	164,867
Byrne Formula Grant - Drug Control and Systems Improvements	16.579	91,891
Law Enforcement Terrorism Prevention	97.004	53,608
Department of Motor Vehicles:		
Enforcing Underage Drinking Laws Program	16.727	5,506
<b>FEDERAL AVIATION ADMINISTRATION</b>		
Direct Payments:		
Department of Aviation:		
Airport Improvement Program	20.106	946,662
<b>DEPARTMENT OF TRANSPORTATION</b>		
Passed through Commonwealth of Virginia:		
Department of Motor Vehicles:		
Alcohol Impaired Driving Grants	20.600	21,481
Department of Conservation and Recreation:		
Chesapeake Bay Watershed	66.466	39,625

(Continued)

**Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2005**

<b>Federal Granting Agency/ Recipient State Agency/ Grant Program</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>
ENVIRONMENTAL PROTECTION AGENCY		
Passed through Commonwealth of Virginia:		
Virginia Resources Authority:		
Revolving Loan	66.458	\$ 2,334,908
EPA Grant	66.606	2,499,000
FEDERAL EMERGENCY MANAGEMENT AGENCY		
Passed through Commonwealth of Virginia:		
Department of Emergency Services:		
2003 II All Hazards	97.008	33,168
Homeland Security	97.067	40,336
COMPONENT UNIT - LYNCHBURG SCHOOLS		
DEPARTMENT OF AGRICULTURE		
Passed through Commonwealth of Virginia:		
Department of Education:		
National School Lunch Program	10.555	1,497,316
National School Breakfast Program	10.553	571,188
DEPARTMENT OF LABOR		
Passed through Region 2000 Workforce Investment Board:		
Workforce Investment Act	17.259	104,544
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Passed through Commonwealth of Virginia:		
Refugee and Entrant Assistance	93.576	2,481
DEPARTMENT OF EDUCATION		
Direct Payments:		
Medicaid	93.778	180,980
Passed through Commonwealth of Virginia:		
Title VIII Impact Aid	84.874	6,297
Adult Education State Grant Program	84.002	104,550
Title I - Educationally Deprived Children - LEA	84.010	3,131,485
Elementary and Secondary Education Act (ESEA):		
Title VI - Innovative Education Program Strategies	84.298	46,066
Title VI-B - Special Education	84.027	2,157,318
Special Education Preschool Grants	84.173	87,241
Technology Literacy Challenge Fund Grants	84.318	120,059
Advanced Placement Programs (Title I, Part G)	84.330	2,496
English Language Acquisition Grants	84.365	16,553
Title II - Part A Funds	84.367	693,277
State Assessments and Related Activities Grants (Title VI Part A, Subpart 1)	84.369	31,320
Vocational Education:		
Basic Grants to States	84.048	123,879
Drug Free Schools and Communities	84.186	139,566
Even Start	84.213	99,517
FEDERAL COMMUNICATIONS COMMISSION		
Direct Payments:		
Communications Information and Assistance and Investigation of Complaints	32.001	111,214
Total Primary Government and Lynchburg City Schools		\$ 24,383,819

## CITY OF LYNCHBURG, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards  
As of June 30, 2005

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### ***Note 1. Significant Accounting Policy***

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#### Basis of Accounting:

The accompanying schedule of federal awards is prepared on the modified accrual basis of accounting.

### ***Note 2. Business Development Centre, Inc. – Revolving Loan Fund***

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The Centre administers the Economic Development Administration Special Economic Adjustment Assistance Revolving Loan Fund Program CFDA 11.307 (01-49-03245) on behalf of the City of Lynchburg. Loans under this program are subject to various restrictions as determined by the Economic Development Administration.

The Centre received the funds indicated as follows through the fiscal year ended June 30, 1998. No funds have been received since that date.

	Federal	State	Local
Amount received through June 30, 1993	\$ 45,000	\$ -	\$ 24,000
Amount received through June 30, 1994	127,836	-	33,612
Amount received through June 30, 1995	44,027	-	14,676
Amount received through June 30, 1996	108,201	-	36,067
Bad debt charge off for the year ended June 30, 1996	(3,005)	-	(1,002)
Amount received through June 30, 1997	10,268	-	3,423
Recapitalized from earnings for the year ended June 30, 1997	3,005	-	1,002
Amount received through June 30, 1998	159,668	40,000	13,222
	<u>\$ 495,000</u>	<u>\$ 40,000</u>	<u>\$ 125,000</u>

### ***Note 3. Non-monetary Assistance***

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Non-monetary assistance is reported in the Schedule of Federal Awards at the fair market value of the food commodities.

## CITY OF LYNCHBURG, VIRGINIA

### Notes To Schedule of Expenditures of Federal Awards

As of June 30, 2005

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#### ***Note 4. Subgrantees***

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The federal expenditures for the Community Development Block Grant and Home Investment Partnership programs include grants to subrecipients as follows:

<u>Subrecipient</u>	<u>Community Development Block Grant</u>	<u>Home Investment Partnership Act</u>
Amazement Square Museum	\$ 12,720	\$ -
Camp Kum-Ba-Yah	20,542	-
College Hill Neighborhood	15,542	-
Dance Theatre of Lynchburg	20,541	-
Free Clinic of Central Virginia	71,700	-
Greater Lynchburg Habitat	42,000	-
Legacy Project	16,399	-
Lynchburg Community Action Group	132,210	169,695
Lynch's Landing	31,510	-
Lynchburg Neighborhood	28,624	283,659
Lynchburg Redevelopment & Housing Authority	282,283	-
Miriam's House	25,542	-
New Land Industries	15,541	-
New Land Samaritan Inn	20,041	-
Rebuilding Together with Christmas in April	70,397	-
Rush Lifetime Homes	16,893	61,167
Virginia University	40,000	-
White Rock Hill Neighborhood	17,450	-
	<u>\$ 879,935</u>	<u>\$ 514,521</u>

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#### ***Note 5. Program Income***

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In accordance with terms of the Community Development Block Grant Program, program income totaling \$68,377 was used to reduce the amount of federal funds in conjunction with the program's objective.

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#### ***Note 6. Virginia Revolving Loan Fund (CFDA 66.458)***

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At June 30, 2005, the City had an outstanding loan balance through the Virginia Revolving Loan Fund in the amount of \$63,525,958, which includes \$7,574,203 of federal funds.

## CITY OF LYNCHBURG, VIRGINIA

## SCHEDULE 3

Schedule of Passenger Facility Charges  
As of June 30, 2005Passenger Facility Charges:

<u>Federal Agency/Program Name/Application Number</u>	<u>PFC Balance July 1, 2004</u>	<u>Adjustments</u>	<u>PFC Collected</u>	<u>Interest Earnings</u>	<u>Expenditures</u>	<u>PFC Balance July 30, 2005</u>
<u>FEDERAL AVIATION ADMINISTRATION</u>						
Passenger Facility Charges (95-01-C-00-LYH)	\$ 3,425	\$ -	\$ -	\$ -	\$ 1,695	\$ 1,730
Passenger Facility Charges (01-03-C-00-LYH)	34,012	-	198,896	460	227,483	5,885
Passenger Facility Charges (05-04-C-00-LYH)	-	-	58,960	114	4,609	54,465
	<u>\$ 37,437</u>	<u>\$ -</u>	<u>\$ 257,856</u>	<u>\$ 574</u>	<u>\$ 233,787</u>	<u>\$ 62,080</u>

**CITY OF LYNCHBURG, VIRGINIA****SCHEDULE 4**Schedule of Expenditures of Passenger Facility Charges  
As of June 30, 2005

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Expenditures of Passenger Facility Charges:

<u>Project</u>	<u>PFC Expenditures</u>
<u>Application 1 (95-01-C-00-LYH)</u>	
Local share reimbursement (non-AIP) Easement Acquisition – Part 77	\$ 1,695
<u>Application 3 (01-03-C-00-LYH)</u>	
Local share reimbursement (non-AIP) PFC development and administrative costs	12,106
State Entitlement Funds reimbursement (transferred to Airport Grants Fund)	215,378
<u>Application 4 (05-04-C-00-LYH)</u>	
Local share reimbursement (non-AIP) PFC development and administrative costs	<u>4,609</u>
Total PFC Expenditures	<u>\$ 233,788</u>

The accompanying schedule of expenditures of passenger facility charges includes the passenger facility charge activity of the City, and is presented on the cash basis of accounting. Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in preparation of, the basic financial statements.

## **STATISTICAL SECTION**

## CITY OF LYNCHBURG, VIRGINIA

TABLE 1

REVENUES AND EXPENDITURES - GOVERNMENTAL FUND TYPES (1)  
LAST TEN FISCAL YEARS

## UNAUDITED

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
<b>REVENUES</b>										
Taxes	\$ 92,733,402	\$ 86,781,006	\$ 81,766,514	\$ 79,972,330	\$ 78,904,476	\$ 75,261,807	\$ 74,095,046	\$ 71,723,052	\$ 68,536,138	\$ 66,590,865
Permits, privilege fees, and regulatory licenses	635,880	738,887	675,311	727,489	700,188	671,067	492,100	392,751	422,388	381,970
Fines and forfeitures	552,797	551,716	538,753	776,701	733,148	807,230	792,086	679,268	542,724	541,199
Revenue from use of money and property	2,236,442	1,475,213	1,072,095	1,665,929	3,158,285	3,220,342	2,867,567	4,169,157	3,279,838	4,166,660
Charges for services	9,968,139	10,353,721	7,244,302	8,337,517	9,197,558	8,764,207	7,327,759	6,922,784	5,903,462	5,065,382
Miscellaneous	936,608	3,496,143	5,910,893	3,850,868	4,611,545	4,332,684	5,288,900	3,612,468	4,288,390	2,991,055
Intergovernmental	115,923,964	114,117,857	110,151,013	78,195,680	80,597,660	71,186,815	68,904,310	65,489,879	57,242,760	56,438,450
Total	\$ 222,987,232	\$ 217,514,543	\$ 207,358,881	\$ 173,526,514	\$ 177,902,860	\$ 164,244,152	\$ 159,767,768	\$ 152,989,359	\$ 140,215,700	\$ 136,175,581
<b>EXPENDITURES</b>										
Current:										
General government	\$ 12,772,779	\$ 12,130,482	\$ 9,768,503	\$ 9,672,372	\$ 8,905,542	\$ 10,631,360	\$ 15,615,422	\$ 15,190,387	\$ 13,714,992	\$ 12,337,836
Judicial	4,573,231	4,134,506	3,695,569	3,320,619	3,405,999	2,949,446	2,193,554	4,042,190	3,817,561	3,642,604
Health and human services	20,883,082	26,855,682	19,875,121	18,983,650	17,597,486	16,922,265	16,490,727	14,523,258	12,610,992	11,028,195
Education	27,714,268	96,952,708	96,791,757	66,942,558	66,571,588	62,643,982	62,792,552	57,423,193	54,979,182	51,844,719
Public safety	35,179,870	33,129,964	25,190,491	27,962,985	27,278,757	26,389,286	19,882,774	18,133,322	15,174,649	13,898,705
Public works	16,347,029	10,650,924	13,931,541	12,196,578	13,277,646	16,584,960	15,836,081	10,952,078	11,248,768	10,604,467
Community development	6,352,211	8,514,631	4,820,850	6,408,775	8,253,511	6,720,815	4,331,174	9,134,304	3,778,269	6,229,159
Culture and recreational	7,770,918	7,549,794	3,929,095	1,717,189	1,668,327	1,621,449	1,343,898	2,897,439	2,664,054	2,389,584
Non-departmental	-	-	7,639,808	6,524,184	6,311,656	5,531,207	4,576,635	4,264,737	4,115,884	3,518,314
Capital outlay	16,690,501	28,073,762	14,041,043	20,122,650	19,751,542	21,990,347	10,536,446	18,957,497	23,891,963	14,653,905
Debt services	12,999,692	24,208,386	26,958,487	(2)	10,068,434	9,816,503	16,597,525	10,645,514	8,781,195	16,410,267
Total	\$ 161,283,581	\$ 252,198,839	\$ 226,646,265	\$ 185,093,121	\$ 183,090,488	\$ 181,801,620	\$ 170,196,788	\$ 166,163,919	\$ 154,777,509	\$ 146,557,755

(1) Includes the General Fund, Special Revenue Funds, Capital Project Funds, Lynchburg City Schools, and Business Development Centre, Inc. in fiscal years 1995-2001. Business Development Centre, Inc. not included in years subsequent to 2001.

(2) Debt service includes defeasement of bonds.

CITY OF LYNCHBURG, VIRGINIA

TABLE 2

ASSESSED VALUE OF TAXABLE PROPERTY (1)  
LAST TEN FISCAL YEARS

UNAUDITED

Fiscal Year	Public Service Corporation				
	Real Estate (2)	Personal Property (3)	Machinery and Tools (2)	Real Estate	Personal Property
					Total
2005	\$ 3,190,227,000	\$ 441,221,304	\$ 106,245,785	\$ 191,327,640	\$ 25,901,179
2004	\$ 3,116,578,400	\$ 458,996,765	\$ 125,639,040	\$ 185,826,527	\$ 28,684,711
2003	\$ 2,822,449,135	\$ 449,743,493	\$ 117,085,047	\$ 187,708,383	\$ 27,292,958
2002	\$ 2,743,591,485	\$ 419,024,367	\$ 106,329,586	\$ 163,282,375	\$ 33,883,382
2001	\$ 2,497,468,075	\$ 438,964,042	\$ 133,509,096	\$ 146,514,485	\$ 33,989,577
2000	\$ 2,449,420,625	\$ 411,292,462	\$ 131,817,754	\$ 147,404,173	\$ 26,207,912
1999	\$ 2,339,246,125	\$ 395,509,615	\$ 118,823,544	\$ 135,417,968	\$ 24,248,606
1998	\$ 2,290,471,575	\$ 376,396,894	\$ 103,346,245	\$ 134,128,601	\$ 24,168,112
1997	\$ 2,113,157,950	\$ 366,471,487	\$ 96,942,132	\$ 123,404,848	\$ 23,396,712
1996	\$ 2,079,069,127	\$ 314,745,348	\$ 96,503,007	\$ 133,140,649	\$ 25,781,569

(1) Assessed value is as of January 1 of the previous fiscal year.

(2) Real estate and machinery and tools are assessed at 100% of fair market value.

(3) Effective July 1, 1989, personal property is assessed at 100% of average trade-in value.

Personal property is assessed at 100% of fair market value.

Sources: Real Estate Assessor, and Commissioner of Revenue.

**PROPERTY TAX RATES - PER \$100 OF ASSESSED VALUATION  
LAST TEN FISCAL YEARS**

**UNAUDITED**

<b>Fiscal Year</b>	<b>Real Estate</b>	<b>Personal Property</b>	<b>Machinery and Tools</b>
2005	\$ 1.11	\$ 3.80	\$ 3.00
2004	\$ 1.11	\$ 3.30	\$ 3.00
2003	\$ 1.11	\$ 3.30	\$ 3.00
2002	\$ 1.11	\$ 3.30	\$ 3.00
2001	\$ 1.11	\$ 3.30	\$ 3.00
2000	\$ 1.11	\$ 3.30	\$ 3.00
1999	\$ 1.11	\$ 3.30	\$ 3.00
1998	\$ 1.11	\$ 3.30	\$ 3.00
1997	\$ 1.13	\$ 3.30	\$ 3.00
1996	\$ 1.16	\$ 3.30	\$ 3.00

## CITY OF LYNCHBURG, VIRGINIA

TABLE 4

PROPERTY TAX LEVIES AND COLLECTIONS  
LAST TEN FISCAL YEARS

## UNAUDITED

Fiscal Year	Total Tax Levy	Current Tax Collections (1)	Percent of Levy Collections	Delinquent Tax Collections (1)	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes	Percent of Delinquent Taxes to Tax Levy
2005	\$ 55,627,670	\$ 54,679,067	98.29%	\$ 1,154,204	\$ 55,833,271	100.37%	\$ 2,596,305	4.67%
2004	\$ 54,001,611	\$ 52,095,333	96.47%	\$ 1,203,114	\$ 53,298,447	98.70%	\$ 3,190,683	5.91%
2003	\$ 50,077,075	\$ 48,306,161	96.46%	\$ 1,200,837	\$ 49,506,998	98.86%	\$ 3,553,917	7.10%
2002	\$ 48,710,267	\$ 47,306,624	97.12%	\$ 794,603	\$ 48,101,227	98.75%	\$ 3,632,947	7.46%
2001	\$ 46,042,884	\$ 44,634,425	96.94%	\$ 1,112,034	\$ 45,746,459	99.36%	\$ 3,045,029	6.61%
2000	\$ 44,505,082	\$ 43,175,341	97.01%	\$ 1,011,960	\$ 44,187,301	99.29%	\$ 2,909,747	6.54%
1999	\$ 42,273,206	\$ 40,935,842	96.84%	\$ 743,598	\$ 41,679,440	98.60%	\$ 2,937,350	6.95%
1998	\$ 41,219,739	\$ 39,793,041	96.54%	\$ 876,002	\$ 40,669,043	98.66%	\$ 4,716,070	11.44%
1997	\$ 38,255,319	\$ 37,215,109	97.28%	\$ 790,508	\$ 38,005,617	99.35%	\$ 4,165,375	10.89%
1996	\$ 37,424,590	\$ 36,491,353	97.51%	\$ 683,307	\$ 37,174,660	99.33%	\$ 3,915,673	10.46%

(1) Real property taxes are payable in four installments on or before November 15, January 15, March 15, and May 15 of the fiscal year. Personal property taxes are payable on or before November 15 if such property is titled within the City on or after January 1 of the tax year and before August 15 of the tax year. Taxes on personal property which are titled within the City after August 15 of the tax year are payable on or before February 15 of the following tax year. The tax levy and collections are exclusive of penalty and interest.

CITY OF LYNCHBURG, VIRGINIA

TABLE 5

RATIO OF NET BONDED DEBT TO ASSESSED VALUE  
AND NET BONDED DEBT PER CAPITA  
LAST TEN FISCAL YEARS

Fiscal Year	Population <sup>1</sup>	Assessed Valuation (in thousands)	Gross Bonded Debt <sup>2</sup>	Payable from Enterprise Revenues <sup>2</sup>	Net Bonded Debt	Net	
						Bonded Debt To Assessed Value	Bonded Debt Per Capita
2005	65269	\$ 3,954,923	\$ 163,552,335	\$ 61,935,092	\$ 101,617,243	0.02569	\$ 1,557
2004	65269	\$ 3,915,725	\$ 174,813,328	\$ 66,896,030	\$ 107,917,298	0.02756	\$ 1,653
2003	65269	\$ 3,604,279	\$ 149,981,377	\$ 64,140,521	\$ 85,840,856	0.02382	\$ 1,315
2002	65269	\$ 3,466,111	\$ 144,972,780	\$ 63,498,966	\$ 81,473,814	0.02351	\$ 1,248
2001	65269	\$ 3,250,445	\$ 134,591,831	\$ 55,521,290	\$ 79,070,541	0.02433	\$ 1,211
2000	65269	\$ 3,166,143	\$ 126,725,002	\$ 54,707,035	\$ 72,017,967	0.02275	\$ 1,103
1999	64600	\$ 3,013,246	\$ 133,714,439	\$ 59,337,375	\$ 74,377,064	0.02468	\$ 1,151
1998	65000	\$ 2,928,511	\$ 133,399,514	\$ 58,165,679	\$ 75,233,835	0.02569	\$ 1,157
1997	64900	\$ 2,723,373	\$ 121,616,932	\$ 52,342,544	\$ 69,274,388	0.02544	\$ 1,067
1996	64800	\$ 2,649,240	\$ 110,823,274	\$ 48,967,080	\$ 61,856,194	0.02335	\$ 955

Source: Director of Financial Services, City of Lynchburg, Virginia

(1) All data from the Weldon Cooper Center for Public Service, University of Virginia, Charlottesville, Virginia; provisional estimates, except for 1990 & 2000, United States Bureau of the Census.

(2) These figures do not include City of Lynchburg Public Utility Revenue Bonds.

## CITY OF LYNCHBURG, VIRGINIA

TABLE 6

## PRINCIPAL TAXPAYERS

June 30, 2005

## UNAUDITED

Taxpayer	Type of Business	2005 Real Estate Assessed Valuation	2005 Total Assessed Valuation	Percentage of Total Assessed Valuation	2005 Total Tax Levy	Percentage of Total Tax Levy
Verizon Va., Inc.	Utility	\$ 85,128,326	\$ 88,552,402	2.24%	\$ 1,000,964	1.79%
AEP	Utility	45,606,327	45,813,748	1.16%	583,951	1.04%
Centra Health, Inc.	Medical	13,619,200	39,922,151	1.01%	151,173	0.27%
River Ridge, Ltd.	Shopping Mall	37,776,100	37,803,025	0.96%	419,471	0.75%
Frito Lay, Inc.	Food Manufacturer	25,143,300	34,059,094	0.86%	466,368	0.83%
Framatome Technologies, Inc.	Nuclear Power Design & Fuel Fabrication	25,827,400	30,253,289	0.76%	919,180	1.64%
G E Financial Assurance, Inc.	Life Insurance	30,031,500	30,031,500	0.76%	496,923	0.89%
Meredith-Burda, Inc.	Periodical Publications Printing	19,500,000	29,961,812	0.76%	1,005,609	1.79%
J D N Realty Corporation, Inc.	Real Estate Company	18,444,700	27,717,344	0.70%	204,736	0.37%
C. B. Fleet Company	Pharmaceuticals	10,111,000	26,760,921	0.68%	266,260	0.47%
Totals		\$ 311,187,853	\$ 390,875,286	9.89%	\$ 5,514,635	9.84%
Total Assessed Valuation: <sup>1</sup>			\$ 3,954,922,908			
Tax Levy: <sup>1</sup>						
Real Estate			\$ 35,512,716			
Railroads and Pipeline			145,490			
Public Service Corporations			2,243,250			
Personal Property			18,169,038			
Total Tax Levy:			\$ 56,070,494			

<sup>1</sup> Source: City of Lynchburg, Real Estate Assessor, and Commissioner of Revenue.

## CITY OF LYNCHBURG, VIRGINIA

TABLE 7

PROPERTY VALUE, CONSTRUCTION, AND BANK DEPOSITS  
LAST TEN FISCAL YEARS

## UNAUDITED

Fiscal Year	Property Value (1)			Commercial Construction (2)		Residential Construction (2)		Bank Deposits (3)*
	Commercial	Residential	Exemptions	Total	Number of Units	Value	Number of Units	Value
2005	\$ 1,098,902,300	\$ 2,100,441,500	\$ 826,377,900	\$ 4,025,721,700	44	\$ 33,440,470	244	\$ 39,336,888
2004	\$ 1,102,415,100	\$ 2,037,540,000	\$ 788,330,400	\$ 3,928,285,500	75	\$ 40,552,566	241	\$ 38,417,819
2003	\$ 949,931,950	\$ 1,874,979,135	\$ 667,648,300	\$ 3,492,559,385	178	\$ 96,401,733	978	\$ 59,119,994
2002	\$ 925,670,250	\$ 1,825,363,885	\$ 622,883,800	\$ 3,373,917,935	24	\$ 41,066,199	254	\$ 34,611,807
2001	\$ 864,892,200	\$ 1,640,119,075	\$ 594,324,850	\$ 3,099,336,125	21	\$ 18,684,568	128	\$ 19,402,235
2000	\$ 836,660,600	\$ 1,620,521,425	\$ 591,109,500	\$ 3,048,291,525	41	\$ 53,949,457	189	\$ 81,549,864
1999	\$ 782,851,250	\$ 1,564,690,825	\$ 561,037,850	\$ 2,908,579,925	90	\$ 40,883,124	862	\$ 42,939,788
1998	\$ 757,491,150	\$ 1,543,357,925	\$ 542,149,000	\$ 2,842,998,075	114	\$ 296,777,401	460	\$ 18,278,629
1997	\$ 718,413,000	\$ 1,403,375,350	\$ 536,254,400	\$ 2,658,042,750	159	\$ 50,479,893	602	\$ 17,375,955
1996	\$ 699,698,450	\$ 1,388,162,800	\$ 529,951,650	\$ 2,617,812,900	135	\$ 37,990,862	429	\$ 13,291,988

\* Amounts expressed in thousands.

Source:

(1) Real Estate Assessments Property Class Breakdown

(2) City of Lynchburg Building Inspection Department.

(3) FDIC [www.fdic.gov](http://www.fdic.gov)

**RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL FUND BONDED DEBT TO TOTAL GENERAL FUND EXPENDITURES, TRANSFERS TO SCHOOL OPERATING FUND, AND RESERVE ALLOCATIONS.  
LAST TEN FISCAL YEARS**

**UNAUDITED**

Fiscal Year		Principal	Interest <sup>(1)</sup>	Total Debt Service	Total General Fund Expenditures and Transfers <sup>(2)</sup>	Ratio of Debt Service to Total General Fund Expenditures and Transfers <sup>(3)</sup>
2005	<sup>(9)</sup>	\$ 6,792,366	\$ 4,003,865	\$ 10,796,231	\$ 127,571,914	8%
2004	<sup>(8)</sup>	6,245,066	3,801,676	10,046,742	141,124,882	7%
2003	<sup>(7)</sup>	6,810,819 <sup>(4)</sup>	3,862,166	10,672,985	136,036,068	8%
2002		7,170,673	4,070,888	11,241,561	114,907,592	10%
2001		5,528,883	3,846,500	9,375,383	118,766,574	8%
2000		5,566,054	3,543,009	9,109,063	112,208,412	8%
1999		6,233,829	3,481,876	9,715,705	104,639,900	9%
1998		6,317,424	3,684,107	10,001,531	107,918,885	9%
1997		5,235,179	3,546,016	8,781,195	98,253,772	9%
1996	<sup>(5)</sup>	6,347,441	3,404,227	9,751,668	97,292,266	10%

<sup>(1)</sup> Excluding bond issuance and other costs.

<sup>(2)</sup> Includes all General Fund expenditures, operating transfers out, and local contributions to component units.

<sup>(3)</sup> Per the City of Lynchburg's Financial Management Policies Adopted August 10, 1999, and reaffirmed on September 28, 2004.

Annual debt service expenditures for tax-supported debt should not exceed 10% of the following:  
Total General Fund Expenditures plus (a) transfers to the School Operating Fund  
and (b) Reserve Allocations.

<sup>(4)</sup> Principal excludes pay-off of bond anticipation note in the amount of \$7,500,000, and refunded General Fund and School debt in the amount of \$8,747,533.

<sup>(5)</sup> Principal payments exclude \$6,658,599 of school retirement incentive liability.

<sup>(6)</sup> Principal payments exclude pay-off of bond anticipation note in the amount of \$5,725,000.

<sup>(7)</sup> Debt service payments for General Fund and Schools for FY 2003 exclude refunded debt payments of \$7,821,520 and \$926,012 respectively.

<sup>(8)</sup> Debt service payments for General Fund and Schools for FY 2004 exclude principal repayments made on the City's interim line of credit as follows:

	Principal	Interest	Total
General	\$ 2,605,000	\$ 2,745	\$ 2,607,745
Schools	\$ 9,599,000	\$ 55,876	\$ 9,654,876

<sup>(9)</sup> Principal amount excludes refunded debt expenditures of \$10,758,650 for the City and \$11,737,500 for the Schools, both of which are reported in the General Fund.

**DEMOGRAPHIC STATISTICS  
LAST TEN FISCAL YEARS**

**UNAUDITED**

<b>Fiscal Year</b>	<b>Population (1)</b>	<b>Median Age (2)</b>	<b>Per Capita Income (3)</b>	<b>School Enrollment (4)</b>	<b>Unemployment Rate (3)</b>
2005	65,269	35.1	\$ 27,626	8,625	5.2
2004	65,269	35.1	\$ 26,900	8,782	N/A
2003	65,269	35.1	\$ 26,193	8,955	6.1
2002	65,269	35.1	\$ 25,422	9,064	6.2
2001	65,269	35.1	\$ 25,177	9,212	4.5
2000	65,269	35.1	\$ 24,579	9,296	2.1
1999	64,400	33.1	\$ 23,443	9,387	2.2
1998	65,200	33.1	\$ 22,451	9,515	2.7
1997	64,800	33.1	\$ 21,284	9,506	4.3
1996	65,800	33.1	\$ 21,434	9,476	3.8

Source:

(1) Weldon Cooper Center for Public Service, University of Virginia [www.coopercenter.org](http://www.coopercenter.org)

(2) United States Census-2000

(3) Virginia Employment Commission (annual average) [www.vaemploy.com/www.vec.virginia.gov/velma.virtuallmi.com](http://www.vaemploy.com/www.vec.virginia.gov/velma.virtuallmi.com)

(4) City of Lynchburg School District Data Processing Department as of June 30, 2005

(4) Lynchburg City Schools. Enrollment as of September 30 for each year presented.

## MICELLANEOUS STATISTICS

June 30, 2005

## UNAUDITED

Date of Incorporation	1805
Date of Independent City Status	1852
Form of Government	Council-Manager
Number of employees (excluding police and fire):	
Classified	819
Exempt	260
Area in square miles	50,107 square miles
City of Lynchburg facilities and services:	
Miles of Streets	455.7
Number of street lights	10,200
Number of traffic signals	113
Culture and recreation:	
Community centers	7
Senior Centers	1
Parks	17
Park acreage	838 <sup>(1)</sup>
Golf courses	0
Swimming Pools	1
Tennis courts	40 <sup>(2)</sup>
Gymnasiums	7
Fire Protection:	
Number of stations	8
Number of fire personnel and officers	179
Number of calls answered	328 per month(est.) <sup>(3)</sup>
Number of inspections conducted	1089
Police Protection:	
Number of stations	1
Number of police personnel and officers	220
Number of patrol units	53
Number of law violations	
Physical arrests	6,717
Traffic violations	11,477
Parking violations	6,806
Number of EMS calls	12,782
Sewerage system:	
Miles of sanitary sewers	450
Miles of storm sewers	Not Mapped
Number of service connections	17,768
Daily average treatment in gallons	13 million
Maximum daily average capacity of treatment plant in gallons	22 million
Maximum daily capacity of treatment plant in gallons	44 million
Water system:	
Miles of water mains	445
Number of service connections	21,522
Number of fire hydrants	2,788
Daily average consumption of plant in gallons	10.5 million
Maximum daily capacity of plant in gallons	26 million
Education:	
Number of elementary schools	11
Number of elementary school instructors	376
Number of secondary schools	5
Number of secondary school instructors	349
Number of community colleges	1
Number of universities or colleges	4
Facilities and service not included in the reporting entity:	
Hospitals:	
Number of Hospitals	2
Number of patient beds	554

<sup>(1)</sup> Including Blackwater Creek Natural Area.<sup>(2)</sup> 10 Locations with a total of 40 courts-including schools.<sup>(3)</sup> Fire calls only, not EMS

## **COMPLIANCE SECTION**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Members of the City Council and City Manager  
City of Lynchburg, Virginia

We have audited the basic financial statements of the City of Lynchburg, Virginia, as of and for the year ended June 30, 2005, and have issued our report thereon dated September 22, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

The City's financial statements include the discretely presented component units Greater Lynchburg Transit Company and the Business Development Centre. Our audit did not include the operations of these component units because these component units engaged other auditors to perform their audits.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. **Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 04-1 and 05-6.**

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. **However, we believe the reportable conditions described above to be material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the City in a separate letter dated September 22, 2005.**

## **Compliance**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements including certain provisions of the compliance matters described in the Summary of Compliance Matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. **The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards, which are described in the accompanying schedule of findings and questioned costs as Items 04-7, 05-3, 05-4, and 05-5. Certain immaterial instances of noncompliance were also noted and communicated to management of the City separately.**

\*\*\*\*\*

This report is intended solely for the information of the audit committee, management, state and federal awarding agencies, and pass-through entities and City Council. It is not intended to be, and should not be, used by anyone other than these specified parties.

*Brown, Edwards & Company, L.L.P.*

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
September 22, 2005

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

To the Members of the City Council and City Manager  
City of Lynchburg, Virginia

**Compliance**

We have audited the compliance of the City of Lynchburg with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's financial statements include the operations of the Greater Lynchburg Transit Company, which received \$1,931,104 in federal awards which is not included in the schedule for the year ended June 30, 2005. Our audit, described below, did not include the operations of the Greater Lynchburg Transit Company because the component unit engaged other auditors to perform an audit in accordance with *OMB Circular A-133*.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. **However, the results of our auditing procedures disclosed instances of noncompliance with these requirements, which are required to be reported in accordance with OMB Circular A-133, and which are described in the accompanying schedule of findings and questioned cost as Items 05-1 and 05-2.**

### Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. **We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.**

This report is intended for the information of the audit committee, management, federal awarding agencies and pass-through entities, and City Council. It is not intended to be, and should not be, used by anyone other than these specified parties.

*Brown, Edwards & Company, L.L.P.*

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
September 22, 2005

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE PASSENGER  
FACILITY CHARGE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE**

To the Members of the City Council and City Manager  
City of Lynchburg, Virginia

**Compliance**

We have audited the compliance of the City of Lynchburg, Virginia with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (the "Guide"), issued by the Federal Aviation Administration, for its passenger facility program for the year ended June 30, 2005. Compliance with the requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

**In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended June 30, 2005.**

**Internal Control Over Compliance**

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws and regulations applicable to the passenger facility charge program. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on the passenger facility charge program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with the Guide.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to the passenger facility charge program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. **We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.**

This report is intended solely for the information of the audit committee, management, the Federal Aviation Administration, and City Council. It is not intended to be, and should not be, used by anyone other than these specified parties.

*Brown, Edwards & Company, L.L.P.*

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
September 22, 2005

**INDEPENDENT AUDITOR'S COMMENTS ON RESOLUTION  
OF PRIOR YEAR AUDIT FINDINGS**

To the Members of the City Council and City Manager  
City of Lynchburg, Virginia

We reviewed the prior year report during the course of this audit to determine if the City has implemented adequate corrective action with respect to previously reported audit findings. **The prior year single audit disclosed the findings noted as 04-5 and 04-6 in the Schedule of Findings and Questioned Costs. Similar findings as those noted as 04-5 and 04-6 in the Summary Schedule of Prior Audit Findings were not noted for the year ended June 30, 2005.**

*Brown, Edwards & Company, L.L.P.*

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
September 22, 2005

## **CITY OF LYNCHBURG, VIRGINIA**

### **SUMMARY OF COMPLIANCE MATTERS**

**June 30, 2005**

As more fully described in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, we performed tests of the City's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

#### **STATE COMPLIANCE MATTERS**

##### *Code of Virginia*

Budget and Appropriation Laws

Cash and Investment Laws

Conflicts of Interest Act

Local Retirement Systems

Debt Provisions

Procurement Laws

Uniform Disposition of Unclaimed Property Act

Personal Property Tax Relief Act

Enhanced E-911 Service Taxes

##### State Agency Requirements

Highway Maintenance Funds

Education

#### **FEDERAL COMPLIANCE MATTERS**

##### Compliance Supplement for Single Audits of State and Local Governments

Provisions and conditions of agreements related to federal programs selected for testing.

#### **FEDERAL AVIATION ADMINISTRATION COMPLIANCE MATTERS**

##### Passenger Facility Charges Audit Guide for Public Agencies

Requirements of laws and regulations required by the Federal Aviation Administration in relation to passenger facility charges.

**CITY OF LYNCHBURG, VIRGINIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2005**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an **unqualified opinion** on the financial statements.
2. **Two reportable conditions** relating to the audit of the financial statements were reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. These reportable conditions were determined to be material weaknesses.
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **No reportable conditions** relating to the audit of the major federal award programs were reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with *OMB Circular A-133*.
5. The auditor's report on compliance for the major federal award programs expresses an **unqualified opinion**.
6. The audit disclosed **two audit findings relating to major programs**.
7. The programs tested as major programs are:

Name of Program	CFDA #
Title 1 – Educationally Deprived Children	84.010
Community Development Block Grant Program	14.218
EPA Grant	66.606
TANF Block Grants	93.558
Medicaid	93.778
Title VI-B Special Education	84.027
Special Education Preschool Grants	84.173
National School Breakfast Program	10.553
National School Lunch Program	10.555
Revolving Loan	66.458
Airport Improvement Program	20.106

8. The **threshold for** distinguishing Type A and B programs was **\$718,000**.
9. The City of Lynchburg was **not** determined to be a **low-risk auditee**.
10. Passenger Facility Charge Program:

- |   |               |
|---|---------------|
| a. Material weakness identified?                                    | No            |
| b. Reportable condition not considered to be a material weakness?   | None reported |
| c. Noncompliance material to the passenger facility charge program? | No            |
| d. Type of auditor's report on compliance for major programs.       | Unqualified   |
| e. Any audit findings disclosed?                                    | No            |

**CITY OF LYNCHBURG, VIRGINIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2005**

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

**REPORTABLE CONDITIONS**

**04-1: Timely Reporting of Accounts Payable**

*Condition:*

Certain procedures are in place to ensure timely financial reporting related to accounts payable. However, not all City departments complied with these procedures.

*Recommendation:*

Controls should be implemented to ensure that financial reporting relating to accounts payable is achieved in a timely manner.

*Management's Response:*

*During February and March 2005, the Department of Financial Services conducted City-wide training and information gathering sessions on the importance of timely bill payment and to gather input from user departments regarding the barriers to timely bill payment. After these meetings, the Department of Financial Services determined that often no procedures were in place at the City departmental level to track purchased and received, but unpaid, goods and services to ensure the completeness of outstanding accounts payable. After the assessment regarding the inadequacy of departmental procedures, the Department of Financial Services issued a revised policy and procedures in April 2005 to assist departments and to enhance the completeness of recorded accounts payable. After issuing the revised policies and procedures, five subsequent training sessions were conducted by the Procurement and Accounting Operations Divisions of Financial Services to explain the new policy and procedures along with a plan for ensuring the completeness of outstanding Accounts Payable at the end of the FY 2005.*

*By January 31, 2006, management will discuss with the non-complying departments issues regarding non-compliance. At the next Key Leaders Meeting, which is a City-wide meeting of managers and supervisors, the importance of adhering to the procedures will again be communicated. Additionally by March 31, the Procurement and Accounting Operations Divisions of the Department of Financial Services will conduct mandatory training for all key leaders and accounts payable staff for the City to reaffirm & explain the policy and procedures along with the plan for ensuring the completeness of outstanding Accounts Payable at the end of the FY 2006. Concurrently an implementation plan for establishing a centralized accounts payable process for completion during FY 2007 will be developed.*

**CITY OF LYNCHBURG, VIRGINIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2005**

**B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)**

**REPORTABLE CONDITIONS (Continued)**

**05-6: School Board Cash Receipts**

*Condition:*

We detected a material understatement of cash due to cash of an entity the School Board is fiscal agent for being recorded in the general ledger of another entity for which the School board is also fiscal agent which is not included the Comprehensive Annual Financial Report(CAFR).

*Recommendation:*

We recommend steps be implemented to ensure that amounts received are properly matched against outstanding invoices and applied to the proper general ledger.

*Management's Response:*

*Lynchburg City Schools is fiscal agent for three organizations, two of which are recorded in this CAFR. Participation in two of the three organizations overlap. One of the organizations with overlapping membership is recorded in this CAFR, the other is not. Lynchburg City Schools will take steps to ensure that payments are deposited to the correct general ledger accounts for the other organizations. The payment in question was a prepayment made by another school division for the following year's services. The error caused no damage to either organization and was easily corrected.*

**C. FINDINGS AND QUESTIONED COSTS – PASSENGER FACILITY CHARGE PROGRAM**

None.

**D. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

**Major Federal Award Programs Compliance Findings**

**05-1: Child Nutrition Cluster – CFDA 10.553 & 10.555**

*Condition:*

One student out of six tested was determined to be ineligible per the School's annual certification review, but such determination was not changed in student's records, resulting in an ineligible student receiving benefits.

*Recommendation:*

Procedures should be implemented to ensure that changes noted in eligibility during the annual certification review are reflected in the student's records.

*Management's Response:*

*The department for school nutrition has implemented a procedure to verify that all student changes were made and that each student in the verification group has the correct meal status.*

(Continued)

**CITY OF LYNCHBURG, VIRGINIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2005**

**D. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT  
(Continued)**

**Major Federal Award Programs Compliance Findings (Continued)**

**05-2: Community Development Block Grant – CFDA 14.218**

*Condition:*

Community Development Block Grant funds were not expended within the specified period of time.

*Recommendation:*

Procedures should be implemented to monitor that all awarded funding is drawn down during the period that such funding is made available by the awarding agency.

*Management's Response:*

*Two major factors contributed to the timeliness test not being met (a) a previous expenditure for a project that was not completed, \$85,000, had to be returned to the Department of Housing and Urban Development (HUD), and (b) approximately \$224,000 that needed to be reprogrammed from previous program years' projects that was not completed or was completed and budget funds remained. All of the referenced funds were reprogrammed in Program Years 2005 and 2006.*

*On a quarterly basis, Community Planning & Development (CP&D) staff will review the balance in the line-of-credit for the Community Development Block Grant (CDBG) Program. CP&D staff will continuously monitor all CDBG projects to ensure their completion and expenditure of funds in a timely manner. Monitoring of the expenditures and timely draws from the U. S. Treasury line-of-credit will ensure that the City meets the annual HUD timeliness test, as required.*

**E. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA**

**Commonwealth of Virginia Compliance Findings**

**04-7: Commonwealth of Virginia: Virginia Security for Public Deposits Act**

*Condition:*

Three cash deposits are not marked as public funds held in a qualified public depository.

*Recommendation:*

Procedures should be implemented to ensure that all public deposits are marked as public funds with a qualified public depository in accordance with the Virginia Security for Public Deposits Act.

*Management's Response:*

*As of September 30, 2005, these accounts have the public funds designation at the bank.*

(Continued)

**CITY OF LYNCHBURG, VIRGINIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2005**

**E. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA (Continued)**

**Commonwealth of Virginia Compliance Findings (Continued)**

**05-3: Commonwealth of Virginia: Comprehensive Services Act**

*Condition:*

One expenditure out of ten tested was not supported by a written contract or service agreement.

*Recommendation:*

Procedures should be implemented to ensure that all applicable expenditures are supported by a written contract or service agreement.

*Management's Response:*

*Following the completion of an internal audit of the Comprehensive Service Act (CSA) program procedures in August 2005, the Comprehensive Services Office began the use of a document inventory form for each CSA client file to ensure all required documentation is obtained and maintained.*

**05-4: Commonwealth of Virginia: Special Welfare Funds**

*Condition:*

A dedicated special welfare account was active after the child left the City's custody.

*Recommendation:*

Procedures should be implemented to ensure that all unexpended special welfare and dedicated funds are returned to individuals who leave the agency's custody, refunded to the applicable funding sources, or escheated to the state.

*Management's Response:*

*The funds were remitted to the Social Security Administration (SSA) on October 3, 2005, and the SSA acknowledged receipt of the funds. Procedures are currently being reviewed to ensure that status changes for foster children are reported in a timely manner, and any funds in the foster children's account are disbursed promptly to the proper agency or custodian. This review is scheduled to be completed by December 31, 2005.*

**CITY OF LYNCHBURG, VIRGINIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2005**

**E. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA (Continued)**

**Commonwealth of Virginia Compliance Findings (Continued)**

**05-5: Commonwealth of Virginia: Submission of Reporting Package**

*Condition:*

The annual reporting package for the June 30, 2004 fiscal year filing was not submitted to the state timely.

*Recommendation:*

Procedures should be implemented to ensure all required reports are filed with the proper state agency timely.

*Management's Response:*

*The reporting package to the State Auditor of Public Accounts is due November 30 of each year. This package is based on the results of annual audit. The FY 2004 audit was not completed until late December 2004. The State Auditor of Public Accounts was advised of the delay in completing the annual audit and approved submission beyond the November 30 due date. The FY 2005 package will be submitted by the November 30 due date.*

**CITY OF LYNCHBURG, VIRGINIA**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**Year Ended June 30, 2005**

Auditor  
Reference No.

**04-5: Submission of the Single Audit Reporting Package**

*Condition:*

The Single Audit Reporting Package for the June 30, 2003 fiscal year was not submitted timely.

*Current Status:*

*The June 30, 2004 single audit reporting package was submitted timely.*

**04-6: Temporary Assistance for Needy Families – CFDA 93.558**

*Condition:*

Three replacement checks out of eight checks tested were issued without documentation of a Financial Maintenance Form or Affidavit for Stop Payment.

*Current Status:*

*Finding was not detected for the year ended June 30, 2005.*